

Quick Hit – These data go to 11!

You don't have to be a fan of the mockumentary *Spinal Tap* to appreciate volume... or more precisely bond volumes. Canadian fixed income trading and DCM desks have been atwitter over the first tranche of new (and improved) *Bond and Money Market Secondary Trading Statistics*. These data, produced by IIROC, itemize secondary trading in domestic bills/bonds by sector, term, counterparty.

Bond trading stats have long been a treasure trove of information for bond market geeks, allowing dealers to assess where they stand with key counterparties and vs their competition, while simultaneously quantifying how liquidity in Canada's debt markets is evolving. IIROC's new reporting framework (MTRS 2.0) has some key differences with the prior reporting regime. First off, the frequency has increased, from quarterly to monthly. So there's 3X as many opportunities to gauge how secondary markets are behaving (and how a dealer's volumes are holding up). This more frequent/timely intel is welcome. MTRS 2.0 aggregates trades from Government Securities Distributors (GSDs) and non-GSDs alike, providing for "a more encompassing view of the market". At the same time, the new stats exclude one half of inter-dealer volumes, eliminating earlier double counting. There are a number of other enhancements and some re-classifications (e.g., MBS now gets its own category). Overall, these are non-trivial changes, constituting a legitimate break in the reporting series and technically invalidating comparisons to pre-2018 data.

What can we take away from the new, publically available stats (which cover the first four months of 2018)? At the top of the house (or the top of the market), C\$4.40 trillion of Canadian bonds were exchanged during the first four months of 2018, averaging C\$1.1 trillion/month. If you're a student of the Canadian bond market, you'll know that activity tends to be quite seasonal. So it's interesting to note that the individual monthly tallies were surprisingly steady. The coefficient of variation (standard deviation divided by mean) has been a scant 3.5% through April. There's still plenty of variation across individual sectors/tenors, but drop-offs in one area were essentially offset by increased activity elsewhere, leaving market-wide volumes little changed from month-to-month.

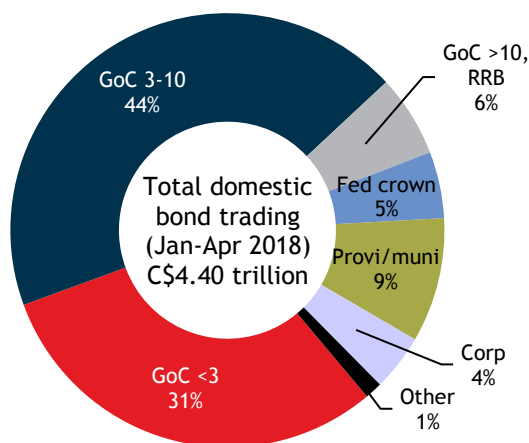
Discarding our warnings and comparing the *new* stats to the *old* data, you'll find that MTRS 2.0 volumes constitute a step-up relative to the prior run-rate. Total domestic bond trading topped C\$3.33 trillion in 2018:Q1, surpassing every previous quarter under the old reporting regime and standing ~15% higher than 2017:Q1 (C\$2.92 trillion). Fully 80% of YTD trade has been in our sovereign, and most of that was in Canada bonds maturing in under 10 years (Chart 1). Call ours a fairly liquid sovereign bond market, with an annual turnover ratio approaching 20X so far this year (Chart 2). Non-residents are clearly supporting liquidity, nowhere moreso than in GoCs (Chart 3), where non-resident volumes are nearly as significant as domestic institutional client flows (excl. banks) (Table). Turnover ratios and non-resident trading shares are considerably lower in non-sovereign segments of the market... nothing terribly new there.

Across all tenors, secondary trading in provincials was more than double that of corps through April, despite a much heavier skew of provi bonds (both new issue and outstandings) to the seemingly less actively traded long end. Really though, if you control for duration/risk, the observed liquidity in the long end of Canada's provi market ends up looking pretty darn good to us, many many multiples of risk-adjusted volumes in long corps (Chart 4).

A final caveat: the data we've focusing on here constitute industry wide totals. Participating dealers receive a finer breakdown, including crucial colour on where they stand vs competing dealers. There may still be some bugs to sort out, but even limiting ourselves to the higher-level results, MTRS 2.0 marks an improvement (in frequency and quality) of all-important secondary market trading volumes. These are data worth pouring over if the functioning of Canadian fixed income markets is of even passing interest.

Chart 1: 80% of trade happens in GoC market

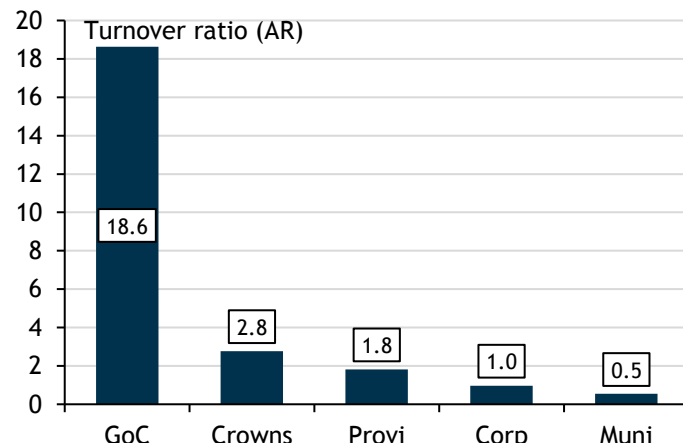
Distribution of secondary market bond trading (2018:YTD)



Source: NBF, IIROC

Chart 2: Perspective on turnover across sectors

Annualized turnover ratios by core bond market sectors (2018:YTD)

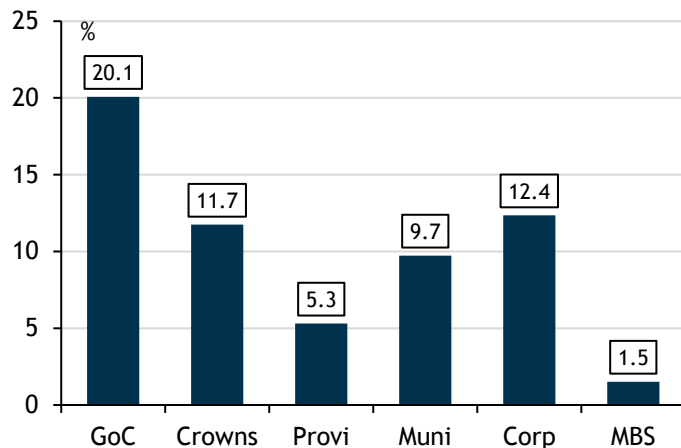


Source: NBF, IIROC | Note: Volumes annualized as of Apr-2018, bonds outstanding as of Mar-18

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Chart 3: Assessing the non-resident factor

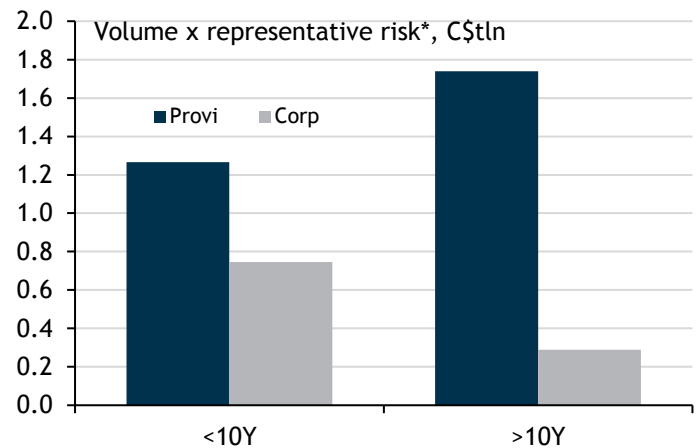
Non-resident share of secondary market bond trading (2018:YTD)



Source: NBF, IIROC

Chart 4: Plenty of liquidity in long provis

Risk-adjusted trading volumes in provi vs corp bonds (2018:YTD)



Source: NBF, IIROC | Note: Based on representative securities for each bucket

Table: A closer look at dealer-wide volumes in key sectors through Apr-2018

Secondary market bond trading volumes (all dealers) by major sector/tenor & counterparty type (2018:YTD)

	Government of Canada					Federal	Provincial	Municipal	Corporate	MBS
	Total	<3Y	3-10Y	>10Y	RRB	Crown				
Monthly/YTD trading volumes (C\$bln)										
Jan	930.8	357.2	508.4	63.3	1.9	47.1	110.2	2.6	55.0	5.2
Feb	890.9	307.4	519.3	63.2	1.0	50.1	85.4	2.7	40.9	7.6
Mar	873.0	342.8	464.8	64.1	1.3	61.7	93.9	3.3	45.5	10.7
Q1 Sum	2,694.8	1,007.4	1,492.6	190.6	4.2	158.8	289.5	8.6	141.3	23.4
Apr	840.2	336.6	429.6	72.7	1.3	59.3	107.7	2.7	43.8	8.8
YTD Sum	3,535.0	1,344.0	1,922.2	263.3	5.5	218.2	397.2	11.3	185.1	32.2
Share of YTD trading through Apr-2018 (% of total)										
Investment dealers	7.3					6.4	3.8	11.5	5.4	11.9
Anonymous systems	34.2					32.0	36.7	19.0	4.9	1.4
Banks	15.6					8.3	6.6	5.1	2.8	26.5
Institutional clients	22.8					41.2	46.5	50.9	71.5	51.8
Retail clients	0.1					0.3	0.5	3.8	2.9	0.3
Non-residents	20.1					11.7	5.3	9.7	12.4	1.5
Issuer	0.0					0.1	0.6	0.0	0.1	6.7
Total	100					100	100	100	100	100

Notes: Industry-wide figures for GSDs & non-GSDs; provi/corp volumes aggregated over all tenors; some sectors & strips excluded

Source: NBF, IIROC

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