

Quick Hit – Recapping 2018 bond supply, with a view to what’s to come

With C\$2.5 trillion in outstanding securities, Canada’s domestic (C\$) bond market is something of a multi-headed beast, comprised as it is of a number of core sectors: sovereign, explicitly guaranteed federal crowns, provincial-municipal governments, corporates, etc. Readers may be familiar with our *Domestic Bond Tracker*, which is produced monthly and details supply trends in core segments of the C\$ bond market. Given the turn of the year, this iteration (including the table on page 2) focuses on full-year issuance tallies for 2018, comparing/contrasting with prior-year totals and offering up some colour on what we might expect in the coming year.

Fewer C\$ bonds minted in calendar 2018 – Adding up our largest/most-regular sectors (i.e., GoC, CMB, provis, munis and corps), 2018 produced ~C\$290 billion of gross issuance. While nothing to sneeze at, domestic bond supply was off more than 15% vs the prior year and slipped below the corresponding 2016 tally as well (Chart 1).

Less plentiful GoC bond supply – Issuance from Canada’s firmly ‘AAA’-rated sovereign dropped some C\$35 billion or fully 25% from the prior calendar year (Chart 2). GoC supply moderated in all nominal sectors, but the pull-back was most concentrated in 3s—essentially a non-benchmark tenor where issuance is accommodated via the re-opening of old 5s. Despite this, >80% of last year’s C\$ sovereign bonds still had a term to maturity of 5-years or less. Looking ahead to 2019-20, Ottawa’s deficit profile appears little changed vs prior budget guidance, where net financing needs were earlier pegged at C\$33 billion. Add in the C\$86 billion of GoC bonds currently set to mature in the coming fiscal year and it’s hard to see gross GoC issuance moving lower from here.

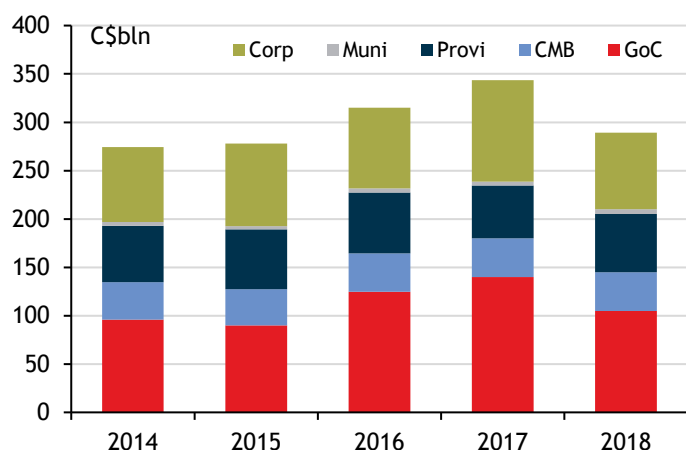
More local-regional government bonds – In contrast to the feds, provincial and municipal issuers were more active in 2018. Provinces printed C\$60.4 billion in the domestic market, up from C\$54.6 billion in 2017, with Ontario keying that year-on-year increase. The vast majority (80%) of new bonds were steered to relatively longer tenors, as evidenced by the 17-year weighted average term to maturity. Years of disproportionately longer-dated issuance delays/minimizes interest rate reset risk and creates flexibility to move down the curve should demand for longer-dated paper falter... not that we’re necessarily holding our breath given what has just become a steeper yield curve environment. We await finer details in budgets, but provincial issuers could collectively have a record amount of financing to complete in 2019-20, with an even larger lift coming the fiscal year after that. As always, a chunk of provi financing will be sourced internationally; witness Alberta’s 7-year euro trade launched just today. Last year brought a bit more than C\$5 billion of publically syndicated municipal bonds, although gross supply in muni land is failing to keep up with retirements (i.e., munis are the only sector of the C\$ bond market where the amount of outstanding bonds is shrinking).

Steady as she goes for CMB, sort of – The CMB program has long been a bastion of stability. That storyline remained intact in 2018, with one noted wrinkle. Gross issuance was essentially in line with a C\$40 billion legislated cap. The final 5-year fixed-rate offering, completed last month, saw the first direct participation from the Bank of Canada, which exercised new authority in buying C\$250 million. Conspiracy theorists may view this as the government propping up the housing market, but we take a different perspective. The BoC purchase was non-distorting, and since Canada Mortgage Bonds are explicitly guaranteed, the government is taking no credit risk. Broader asset eligibility provides prospective flexibility to reduce participation in GoC bond auctions, which could bolster the tradeable float. That’s a good option to have, given the imperative of maintaining secondary market liquidity in GoC benchmarks.

Corporate supply drops sharply – At C\$78.8 billion, corporate issuance (as we define it) slumped 25% in 2018, with a clear majority of sectors seeing less action. The market was all but shut-in due to December volatility, with the resulting Q4 tally barely half of that averaged during the post-crisis period. Look to our corporate strategist, Connor Sedgewick, for regular supply colour, but market tone willing we may be digesting a larger supply of corporates in calendar 2019—C\$80-100 billion by way of a ‘guesstimate’—as issuers, with plenty of bonds to refi, lock-in still-attractive coupons and investors put money to work at now wider spreads.

Chart 1: Issuance slows, temporarily, in 2018

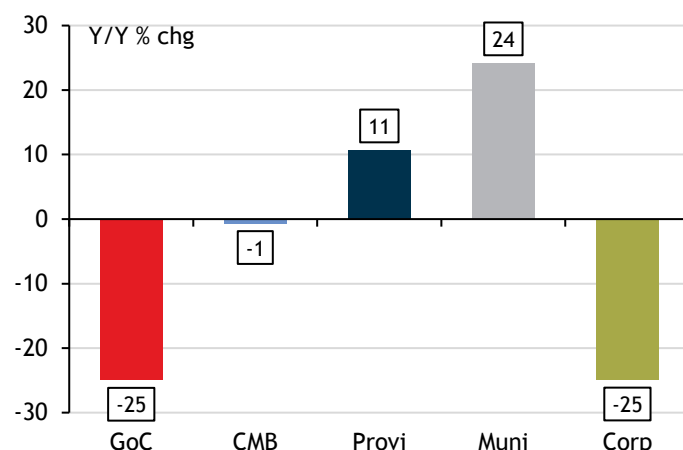
Annual gross C\$ bond issuance by key sectors



Source: NBF, Bloomberg

Chart 2: Shifting supply patterns

Change in gross C\$ bond issuance by key sectors: 2018 vs 2017



Source: NBF, Bloomberg

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Table: Monitoring primary market activity in Canada's domestic bond market

Monthly & full-year gross bond supply by sector, issuer, tenor/bucket

NBF Domestic Bond Tracker							
C\$billion	Monthly issuance			Prior yr	Calendar year sum		
	Dec-18	Nov-18	Oct-18	Dec-17	2018	2017	2016
Government of Canada	5.0	9.7	10.0	4.7	105.0	139.9	124.6
2Y	3.0	6.0	3.0	3.6	49.2	61.5	61.6
3Y	2.0	-	-	-	11.7	25.7	13.0
5Y	-	3.0	3.0	-	25.4	30.7	29.8
10Y	-	-	3.0	-	13.5	15.0	14.5
30Y Nominal	-	-	1.0	1.1	3.0	3.5	3.5
30Y RRB	-	0.7	-	-	2.2	2.2	2.2
Extra-longs	-	-	-	-	-	1.3	-
Weighted avg term (yrs)	2.4	4.9	8.1	8.6	5.3	5.2	5.0
Canada Housing Trust	5.5	4.8	-	5.3	39.8	40.0	40.0
5Y Fixed	5.5	-	-	5.3	21.5	21.0	20.3
5Y FRN	-	2.5	-	-	9.5	9.8	10.8
10Y Fixed	-	2.3	-	-	8.8	9.3	9.0
Provincial governments	2.8	2.3	6.6	1.7	60.4	54.6	62.7
Ontario	1.4	1.0	5.0	0.6	26.7	22.7	20.9
Québec	-	0.5	-	0.5	11.5	11.6	15.4
British Columbia	-	0.5	-	-	3.5	2.5	2.0
<i>Big-3 (Ont, Qué, BC)</i>	<i>1.4</i>	<i>2.0</i>	<i>5.0</i>	<i>1.1</i>	<i>41.7</i>	<i>36.7</i>	<i>38.3</i>
Alberta	0.5	-	0.9	-	7.0	8.5	10.8
Saskatchewan	0.3	-	0.3	0.3	2.6	3.0	2.7
Newfoundland & Lab.	0.4	-	-	0.3	1.9	1.1	4.9
<i>Oil-levered (Alta, Sask, N&L)</i>	<i>1.2</i>	<i>-</i>	<i>1.2</i>	<i>0.6</i>	<i>11.4</i>	<i>12.5</i>	<i>18.4</i>
Manitoba	-	0.3	0.5	-	5.4	3.3	4.1
Maritimes (NB, NS, PEI)	0.3	-	-	-	2.0	2.1	1.9
Public	2.2	2.3	6.5	1.7	54.1	49.2	54.5
Private / MTN / Auctions	0.7	-	0.2	-	6.3	5.5	8.1
Fixed	2.2	2.3	6.6	1.7	55.1	50.6	55.8
Floating	0.7	-	-	-	5.3	4.0	6.9
1-5Y	0.7	-	1.8	-	11.9	8.8	13.0
6-10Y	1.4	0.5	3.4	0.8	25.5	21.8	27.2
>10Y (i.e. longs)	0.8	1.8	1.5	0.9	23.1	24.0	22.5
Weighted avg term (yrs)	14.7	26.4	13.8	21.1	17.2	18.5	16.3
<i>International issuance</i>	<i>0.0</i>	<i>0.1</i>	<i>6.2</i>	<i>0.7</i>	<i>20.4</i>	<i>29.6</i>	<i>22.7</i>
<i>Prov'l total (incl non-C\$)</i>	<i>2.9</i>	<i>2.4</i>	<i>12.8</i>	<i>2.4</i>	<i>80.9</i>	<i>84.3</i>	<i>85.4</i>
Municipal governments	-	1.0	0.2	-	5.1	4.1	4.5
Corporate	1.0	5.2	3.9	3.8	78.8	105.0	83.3

Notes: Figures represent gross bond supply; issuance totals based on par amount; deals recorded as per issue date; unless otherwise noted, figures refer to C\$-denominated issues only; provincial figures include issuance by guaranteed entities; provincial international issuance presented for reference purposes, converted to C\$-equivalent amounts at prevailing exchange rates; municipal government issuance refers to publically syndicated deals only; corporate issuance as per NBF Corporate Desk Trading and Research and reflects fixed coupon offerings only

Source: NBF, Bank of Canada, provincial governments, Bloomberg

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