



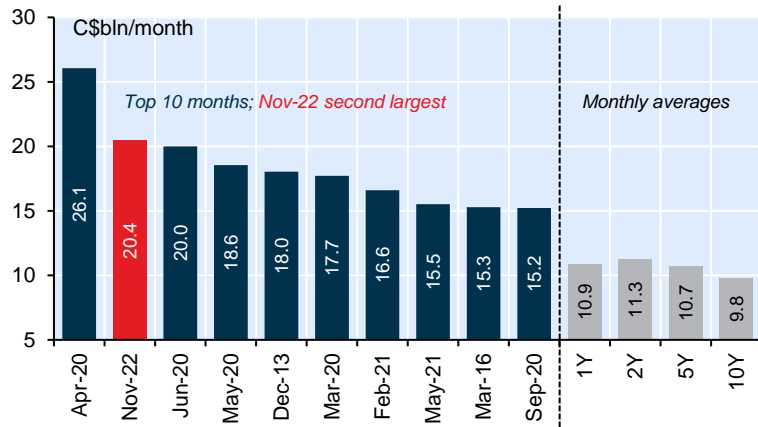
Heavy lifting (in Canada's domestic bond market)

By Warren Lovely & Taylor Schleich

As far as domestic issuance by Canadian public sector entities is concerned, November 2022 was *almost* as remarkable as they come. By our count, some C\$20½ billion of issuance was steered into the Canadian dollar bond market by provincials, municipals, CHT and other public sector/SSA entities. That's not counting the C\$15 billion of GoC bonds Ottawa auctioned, with the sovereign also bringing a one-of-its-kind Ukraine sovereignty bond. November's 20+ yards was a heavy lift, second only to Apr-20, when acute virus anxiety had issuers racing to get liquidity in the door. After a quiet (read challenging) October, last month saw a hefty slug of provincial bonds steered into the market (>C\$11 billion). Nevertheless, trend provi supply has receded appreciably, particularly factoring in a collapse in international issuance. Note: The C\$77 billion of total (i.e., all ccy) provincial supply observed in the first 11 months of 2022 was a bit slower than the pre-COVID trend. Provi supply relief captures a dramatic fiscal improvement and resulting step down in cash requirements. While borrowing programs are nicely advanced, one suspects provinces may wish to avail themselves of Canada's lumpy seasonal cash. From a valuation perspective, there's some evidence that the recent wave of supply may have blunted spread performance, with provis lagging the rally in corporate credit. But the most compelling valuations may be available in CMB in our opinion, something to bear in mind as the final 5Y CMB fixed-rate bullet comes into focus.

Chart 1: Public sector issuers got very busy in November

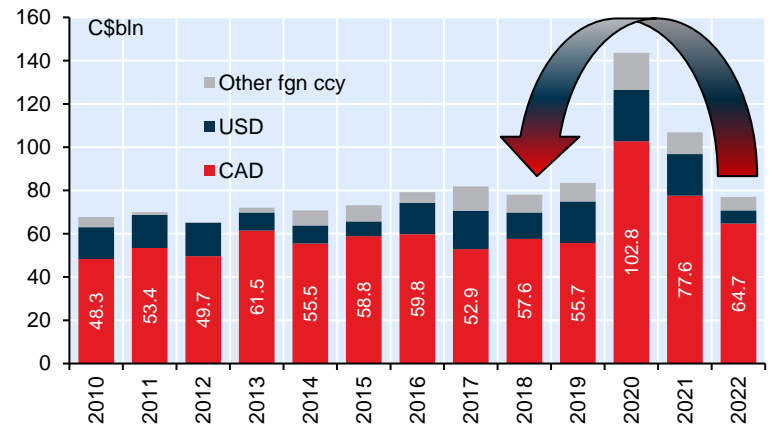
Gross domestic bond issuance: Cdn provi/muni gov't, crowns, PSEs & SSAs



Source: NBF | Note: Focus is public sector credit; excludes GoC & corporates

Chart 2: YTD provi issuance at/below pre-visus pace

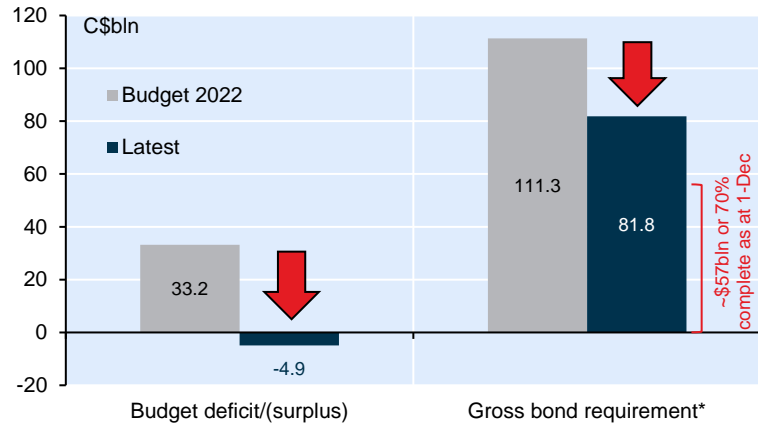
Gross provincial bond issuance by currency of issue: YTD basis (Jan-Nov)



Source: NBF | Note: Foreign ccy trades converted to CAD at prevailing FX rate

Chart 3: Budget improvements reduce cash needs

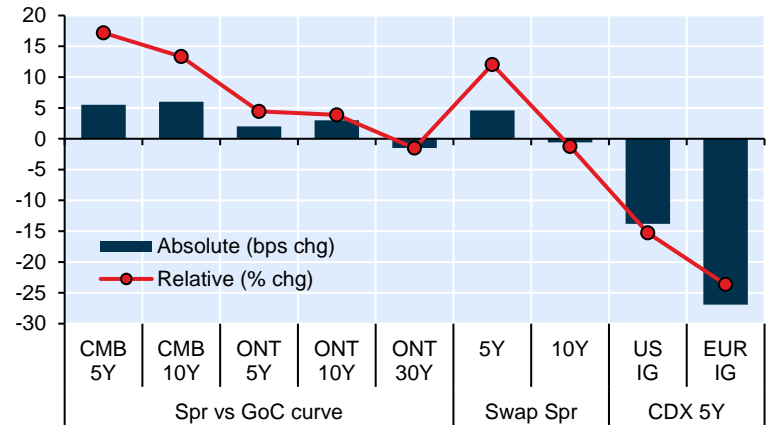
Total provincial deficit/(surplus) & gross bond requirement: 2022-23



Source: NBF, prov gov'ts | Note: Gross bond req't in some cases not yet updated

Chart 4: CMB, provi spreads may offer value here

Absolute & relative chg in spreads/CDX indices: 31-Oct to 1-Dec



Source: NBF, Bloomberg | Note: Refer to Table 1 for additional detail

Table 1: A closer inspection of current relative value (with warning that spreads are hardly static these days)

Select Canadian public sector credit spreads, focusing on change over past month: As at 1-Dec

	Spreads vs GoC curve					ASW levels					Basis to ONT					Reference							
	CMB 5Y	CMB 10Y	Ont 5Y	Ont 10Y	Ont 30Y	CMB 5Y	CMB 10Y	Ont 5Y	Ont 10Y	Ont 30Y	CMB 5Y	CMB 10Y	Que 10Y	BC 10Y	Alta 10Y	Muni 10Y	US IG 5Y	EUR IG 5Y	SPX Index	SPTSX Index	DX Index	CAD vs. USD	VIX Index
	1-Dec	37.5	51.0	47.0	80.5	97.5	-5.3	3.5	4.2	33.0	65.0	-9.5	-29.5	-3.0	-2.5	-1.0	13.0	76.5	86.9	4063	20560	104.9	1.343
31-Oct	32.0	45.0	45.0	77.5	99.0	-6.2	-3.1	6.8	29.4	68.7	-13.0	-32.5	-2.0	-3.0	-2.0	13.0	90.3	113.8	3872	19426	111.5	1.362	25.9
Chg (bps)	5.5	6.0	2.0	3.0	-1.5	0.9	6.6	-2.6	3.6	-3.7	3.5	3.0	-1.0	0.5	1.0	0.0	-13.8	-27.0	4.9%	5.8%	-5.9%	-1.4%	-20.3%
Z (#SDs)	1.5	1.3	1.3	0.2	-1.3	0.0	0.9	-1.1	0.2	-1.3	1.4	2.0	-0.7	0.5	1.8	NA	-1.4	-1.4	1.3	1.6	-1.4	-0.1	-1.3

Source: NBF, Bloomberg | Note: CMB, provi, muni spreads based on NBF constant maturity indications; US & EUR IG spreads based on latest CDX; excl. equities, currencies & vol changes from 31-Oct to 1-Dec expressed in basis points; Z-scores denote number of standard deviations current level is from average since 31-Oct; levels captured as of 1-Dec

Table 2: Tracking domestic bond supply

NBF Domestic Bond Tracker: Monthly & YTD breakdown of domestic (CAD) bond issuance by sector, issuer, tenor & deal type

NBF Domestic Bond Tracker									
C\$billion	Monthly issuance			Prior yr	Calendar year-to-date		Calendar year sum		
	Nov-22	Oct-22	Sep-22	Nov-21	2022	2021	2021	2020	2019
Government of Canada	15.0	20.5	12.8	22.5	191.5	271.5	281.4	321.2	114.0
2Y	3.5	8.0	4.0	3.5	63.0	78.5	82.0	117.0	48.0
3Y	2.5	2.5	-	3.0	22.0	35.0	35.0	49.3	16.4
5Y	3.5	4.0	4.0	4.5	31.5	48.0	48.0	73.9	30.6
10Y	4.0	4.0	3.0	8.5	56.0	75.0	79.0	56.9	12.6
30Y Nominal	1.5	2.0	1.5	2.0	17.0	31.0	33.0	23.0	4.2
30Y RRB	-	-	0.3	-	1.0	1.0	1.4	1.1	2.2
Extra-long	-	-	-	1.0	1.0	3.0	3.0	-	-
Weighted avg term (yrs)	7.8	7.0	8.0	10.1	7.8	8.6	8.7	6.4	5.4
Canada Housing Trust	4.8	-	5.0	5.0	35.0	35.0	40.0	53.0	40.0
5Y Fixed	-	-	5.0	-	15.5	15.3	20.3	32.0	21.5
5Y FRN	1.3	-	-	1.0	4.8	4.3	4.3	6.0	9.8
10Y Fixed	3.5	-	-	4.0	14.8	15.5	15.5	15.0	8.8
Provincial governments	11.1	4.1	4.9	5.1	64.7	77.6	81.8	108.3	57.8
Ontario	3.8	1.8	1.9	2.1	25.9	33.9	36.0	40.7	25.3
Québec	4.1	2.1	2.1	1.1	23.6	19.3	20.9	24.2	14.4
British Columbia	1.0	-	-	0.5	5.8	5.8	6.3	10.3	2.9
<i>Most populous (Ont, Qué, BC)</i>	<i>8.9</i>	<i>3.9</i>	<i>4.0</i>	<i>3.7</i>	<i>55.3</i>	<i>59.0</i>	<i>63.2</i>	<i>75.2</i>	<i>42.6</i>
Alberta	0.5	-	-	-	1.9	8.8	8.8	15.4	5.7
Saskatchewan	-	-	-	0.5	1.2	3.0	3.0	4.3	1.9
Newfoundland & Lab.	0.3	-	-	-	1.5	1.3	1.3	3.0	1.6
<i>Oil-levered (Alta, Sask, N&L)</i>	<i>0.8</i>	<i>-</i>	<i>-</i>	<i>0.5</i>	<i>4.6</i>	<i>13.0</i>	<i>13.0</i>	<i>22.6</i>	<i>9.2</i>
Manitoba	0.8	-	0.3	0.3	2.3	3.1	3.1	5.8	2.9
Maritimes (NB, NS, PEI)	0.6	0.2	0.6	0.6	2.6	2.5	2.5	4.7	3.2
Public	11.1	3.9	4.9	5.1	64.3	77.0	80.4	102.9	55.7
Private / MTN / Auctions	-	0.2	-	-	0.5	0.6	1.3	5.4	2.0
Fixed	11.1	4.1	4.9	5.1	64.7	77.5	81.7	107.5	57.1
Floating	-	-	-	-	0.1	0.0	0.0	0.8	0.6
1-5Y	1.9	0.8	-	0.5	4.2	2.6	3.3	23.5	7.0
6-10Y	4.7	1.8	1.5	2.4	31.3	39.9	41.3	49.8	24.9
>10Y (i.e. longs)	4.6	1.5	3.4	2.2	29.3	35.1	37.2	35.1	25.9
Weighted avg term (yrs)	18.3	17.0	25.6	18.6	19.4	19.5	19.5	16.4	19.3
International issuance	0.0	-	-	0.7	12.2	29.3	29.6	40.9	27.8
Prov'l total (incl non-C\$)	11.1	4.1	4.9	5.8	77.0	106.9	111.4	149.2	85.5
Municipal governments	0.6	0.1	0.4	0.3	4.4	5.7	5.9	5.4	5.3

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 publicly syndicated deals only

Source: NBF, BoC, prov gov'ts, Bloomberg



Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King, CFA

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

US Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major US Institutional Investors only.

This report is not subject to US independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.