

## Adjusting the [bond] volume

By Warren Lovely

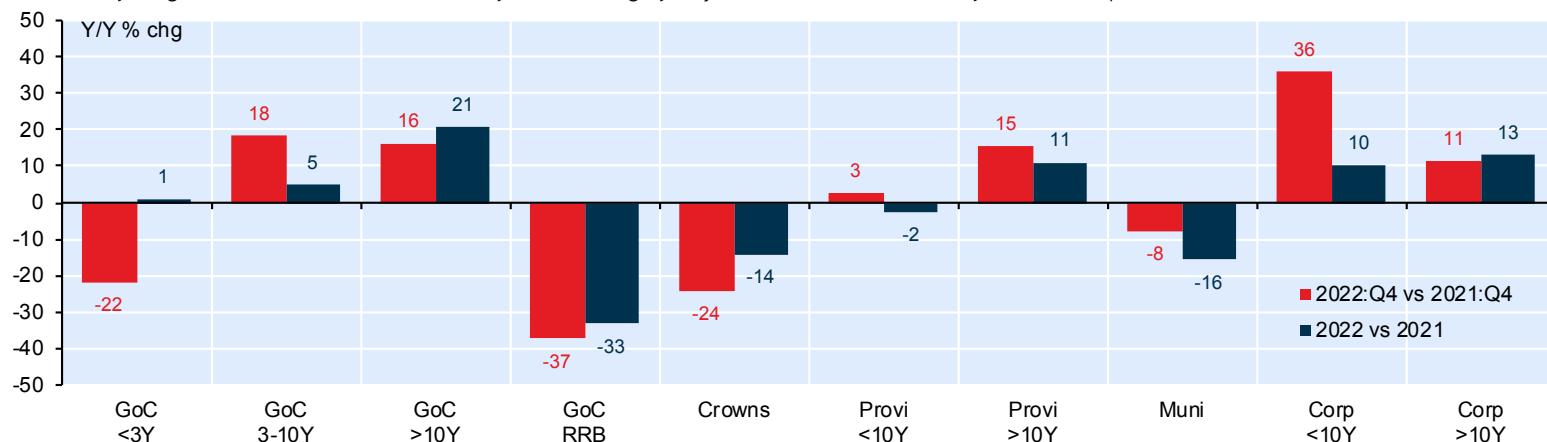
It's still early enough in the year to reflect on what we saw and learned in 2022. After all, when it comes to Canada's secondary market trading volumes, IIROC only recently finalized last year's statistics. At C\$14.3 trillion, total secondary trading in Canada's domestic bond market rose ~3% in 2022, this despite a pronounced step down in primary market activity and the onset of a notionally liquidity-draining Quantitative Tightening program at the Bank of Canada (where 100% passive balance sheet run-off commenced in April 2022).

As always, there's plenty of nuance when dissecting the year that was in terms of Canada's secondary trading. The following charts (a baker's dozen worth) highlight select aspects we found informative, although any number of additional visuals could be conjured from this rich data set. We're reluctant to dwell too much on the past year's data, mindful of an ongoing evolution in rates markets linked to policy rate normalization and a still highly uncertain economic, fiscal, geopolitical outlook. Saying that, we were encouraged by the demonstrated liquidity that was afforded market participants in most key sectors of Canada's fixed income market in 2022. Yes, there were cases where secondary market activity receded, and some segments of the investor base may have turned their positions over less fervently (some non-resident investors come to mind). But 2022 showed a Canadian bond market with enviable depth... a resilient market that nicely accommodated an initial phase of QT... and one that remained well functioning even as liquidity flares shot up in some international bond markets.

As for a brief bit of self-promotion, National Bank Financial was extremely proud to secure the market leading share of total GoC bond trading in 2022, our firm ranking second in overall domestic bond trading last year. We look forward to another eventful year in 2023.

### Chart 1: Assessing growth in secondary trading volumes across Canada's domestic bond market

Year-over-year growth in total Canada secondary bond trading by major sector/tenor: 2022 (full-year & latest quarter)



Source: NBF, IIROC | Note: For Charts 1-11, secondary trading volumes based on sum of all counterparties

Over C\$14 trillion traded hands in Canada's domestic bond market in 2022, total secondary volume (all sectors) rising 3% year-on-year. The sovereign (GoC) once again accounted for the lion's share of trade (78%), where some marginal activity migrated out the curve. Provincial volumes held up, despite a major step down in issuance, with longer-dated provincials continuing to demonstrate good depth/liquidity. Corporate bond volumes also defied a slowdown in domestic supply, with total corporate trading rising 8% despite pronounced bouts of risk-aversion as central banks pounded away.

### Chart 2: Onset of tightening keyed re-positioning

Monthly pattern of total Canada bond trading: 2022 vs. trend

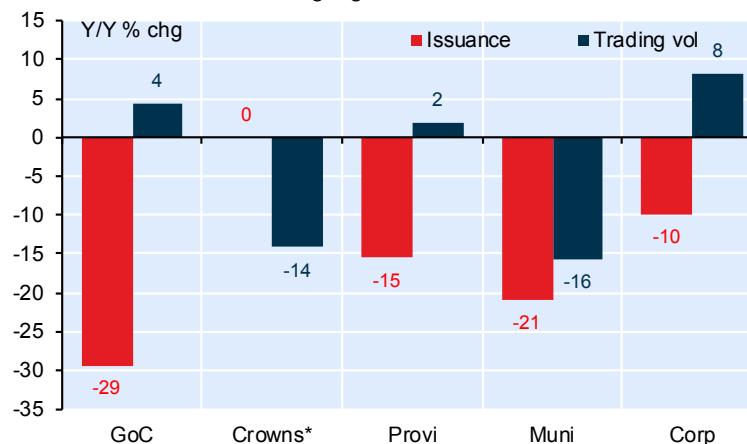


Source: NBF, IIROC | Note: Individual months scaled to average monthly volume

The BoC (and Fed) shook things up in March, initiating tightening cycles. That was followed by a seasonal pick-up in volume in June, activity moderating in the second half with QT taking hold.

### Chart 3: In some cases, volume up despite (much) less supply

Growth in Canada bond trading & gross bond issuance: 2022

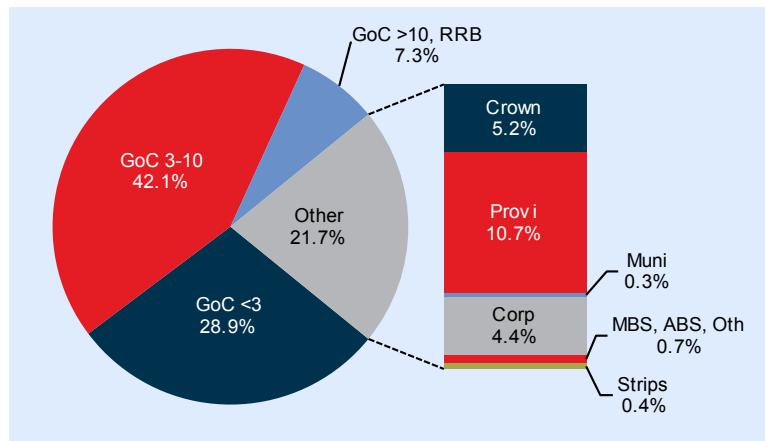


Source: NBF, IIROC, Bloomberg | Note: For Crowns, issuance refers to CHT only

In spite of a primary market pullback, trading volumes rose in key corners of the market like Canadas, provis and corps. For some, a major rate re-think prompted portfolio re-positioning.

#### Chart 4: GoC home to 78% of 2022's total domestic trading

Share of Canada bond trading by major sector/term: 2022

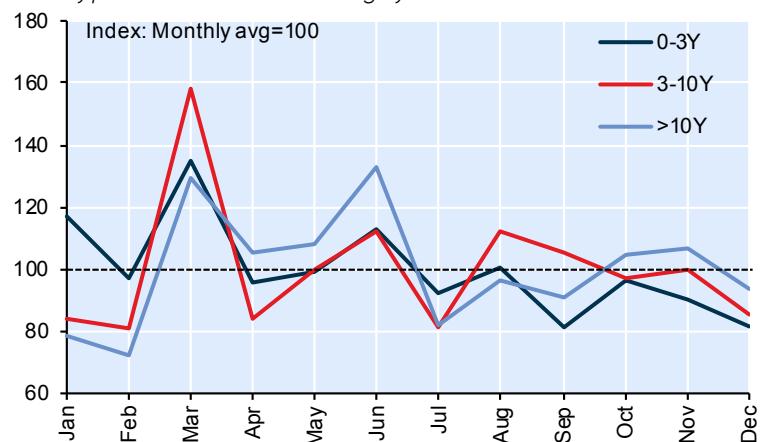


Source: NBF, IIROC | Note: Share of C\$14.3 trillion in total bond trading in 2022

The GoC share of trading may be in line with prior years, but it's hardly status quo. Supply receded as red ink was cleaned up. Meantime, BoC QT is pushing more bonds to end investors.

#### Chart 6: Less activity in second half (not entirely uncommon)

Monthly pattern of GoC bond trading by tenor: 2022

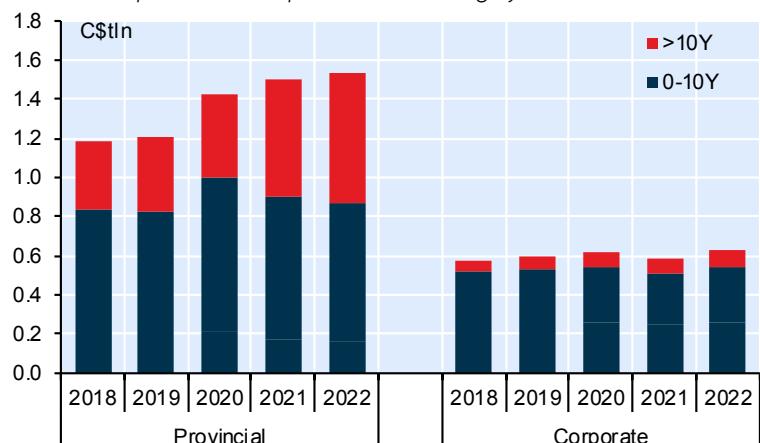


Source: NBF, IIROC | Note: Individual months scaled to average monthly volume

There's a seasonal tendency to GoC bond trading that was partially on display in 2022 (e.g., March, June). Second half GoC volumes were off 12%, with QT poised to pick-up in 2023.

#### Chart 8: Plenty of action in long provincials

Total annual provincial & corporate bond trading by term

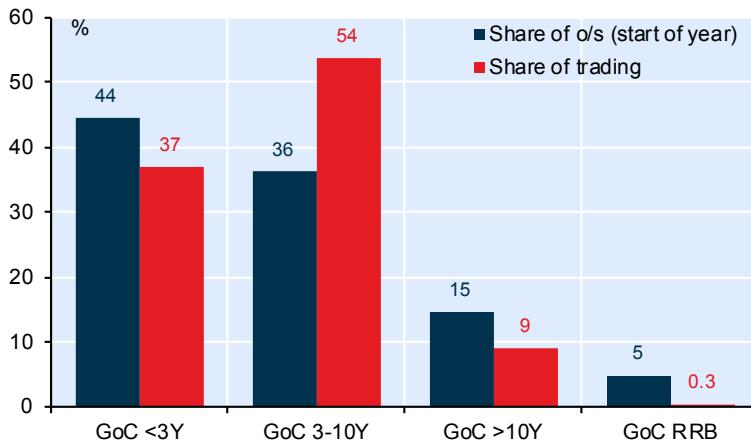


Source: NBF, IIROC | Note: For 2022, total provi vol +2% & total corp vol +8%

Less primary paper, no problem... at least for provis and corps, where volumes edged up. Activity was relatively brisk in long provis, where volume is not that far removed from the GoC.

#### Chart 5: Where on curve are Canadas trading?

Share of total GoC bond trading vs. share of GoC bonds outstanding: 2022

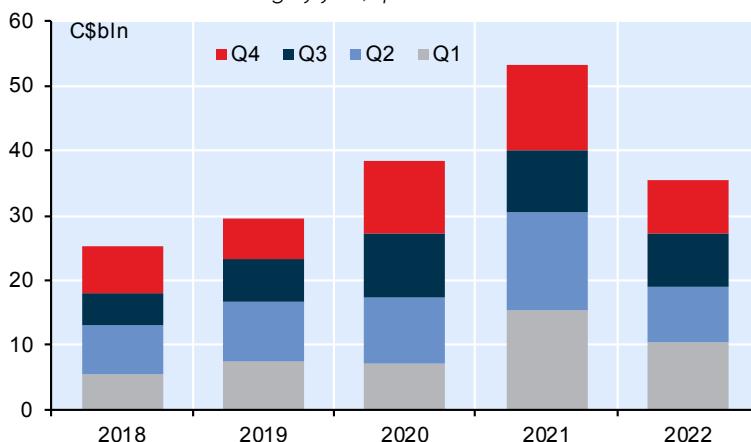


Source: NBF, IIROC, BoC | Note: O/s bonds as at 1-Jan-22; trading share is full year total

There's no shortage of trading (or outstandings) in the front end of the GoC market, but the belly continues to account for a disproportionate share of Canada volume, with active hedging here.

#### Chart 7: RIP RRBs?

Total GoC RRB bond trading by year/quarter

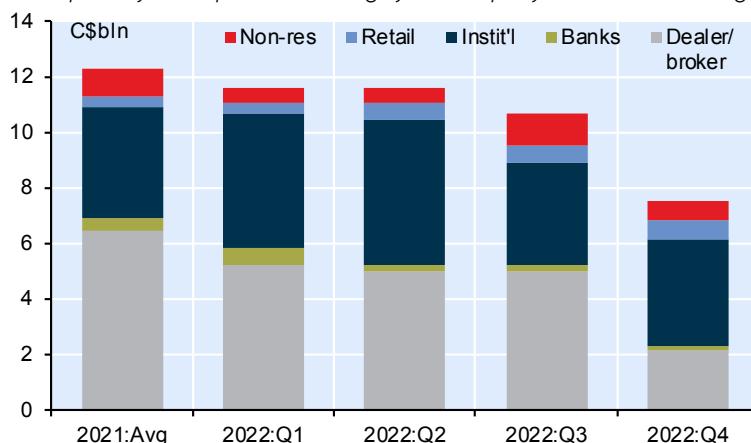


Source: NBF, IIROC

RRBs have long been a special case. After a noted pick-up in 2021, RRB volume retreated last year. Finance Canada's FES sounding the death knell for this product—a decision [we lamented](#).

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Total annual provincial & corporate bond trading by term



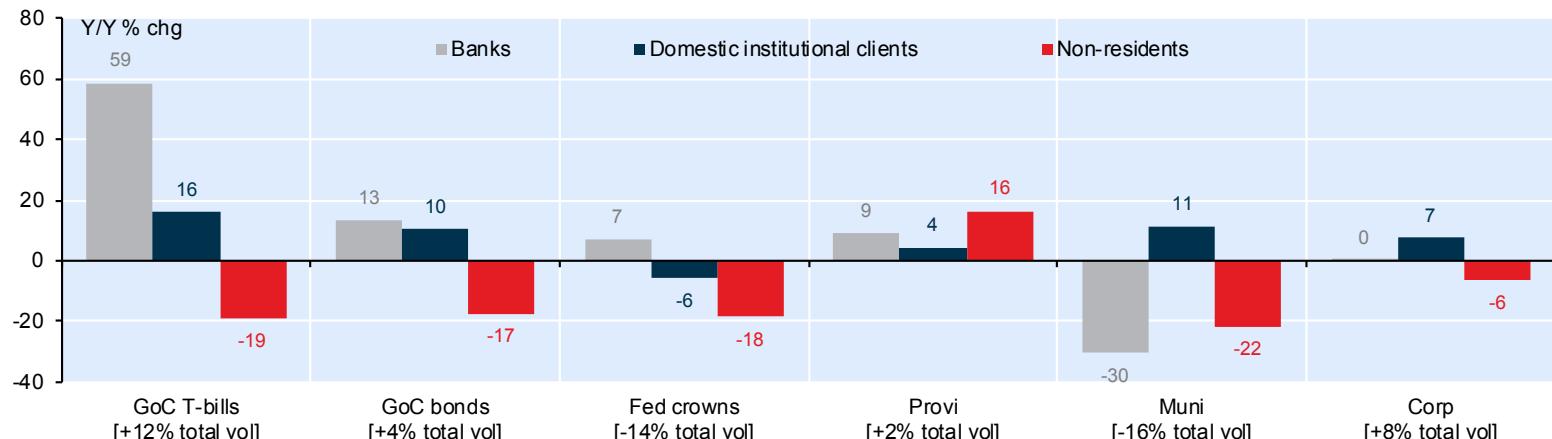
Source: NBF, IIROC | Note: For 2022, total muni vol -16% on full-year basis

Muni bond volume sunk 16% in 2022, activity in the final quarter of the year particularly light. Much of that relates to dealer/broker trade, with institutional investors still reasonably engaged.



### Chart 10: A closer look at what some key investor types were trading

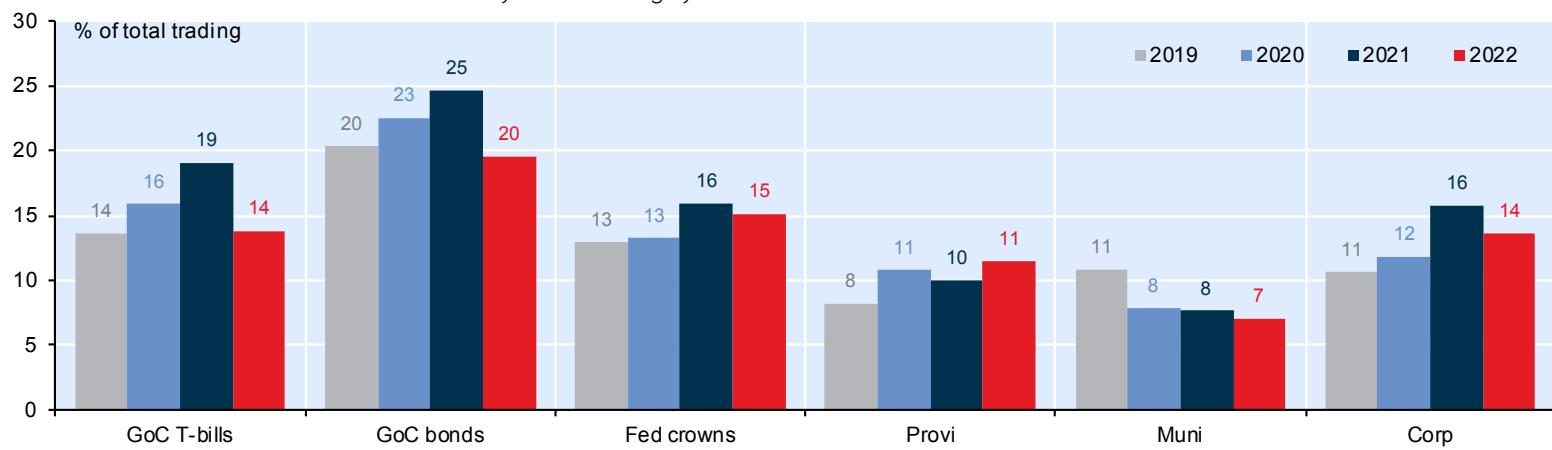
Year-over-year growth in Canadian bond & money market trading by select investor type & sector: 2022



With the BoC backing away via QT, more Canadas are being placed with domestic investors (banks and institutional clients). So trading volumes are on the rise here. If anything, Canadian banks were also more active in Crowns and provis. In many cases, non-resident volumes moderated in 2022, despite foreign investors technically adding to the total holdings of domestic paper last year.

### Chart 11: Non-resident footprint in domestic market generally lightened up in 2022

Non-resident share of total Canada bond & money market trading by select sector: 2019 to 2022



Non-residents are non-trivial players in Canada's domestic bond market, foreign hedge funds, banks, asset managers and official accounts important sources of secondary market liquidity. Saying that, the non-resident share of domestic trading generally declined in 2022. Non-residents were more active in provincials, BC and Alberta having attracted outsized foreign flow (19-21% of all trade).

### Chart 12: NBF #1 in total GoC bond trading...

Individual dealer share of total GoC bond trading (all tenors): 2022



And now a brief self-promotional message: The ~C\$1.7 trillion of Government of Canada bonds National Bank Financial traded in 2022 left us with the market-leading share of total GoC trading in calendar 2022 (having just narrowly missed this honour in 2021.)

### Chart 13: ... and #2 in total domestic bond trading in 2022

Individual dealer share of total domestic bond trading (all sectors): 2022



A relatively strong position in total GoC trading (shown at left), combined with solid representation in other segments left NBF in the #2 position in terms of total domestic bond trading in 2022. Thanks to all our counterparties. As always, your bid or offer is welcomed.



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