

Striving for balance in a QT world

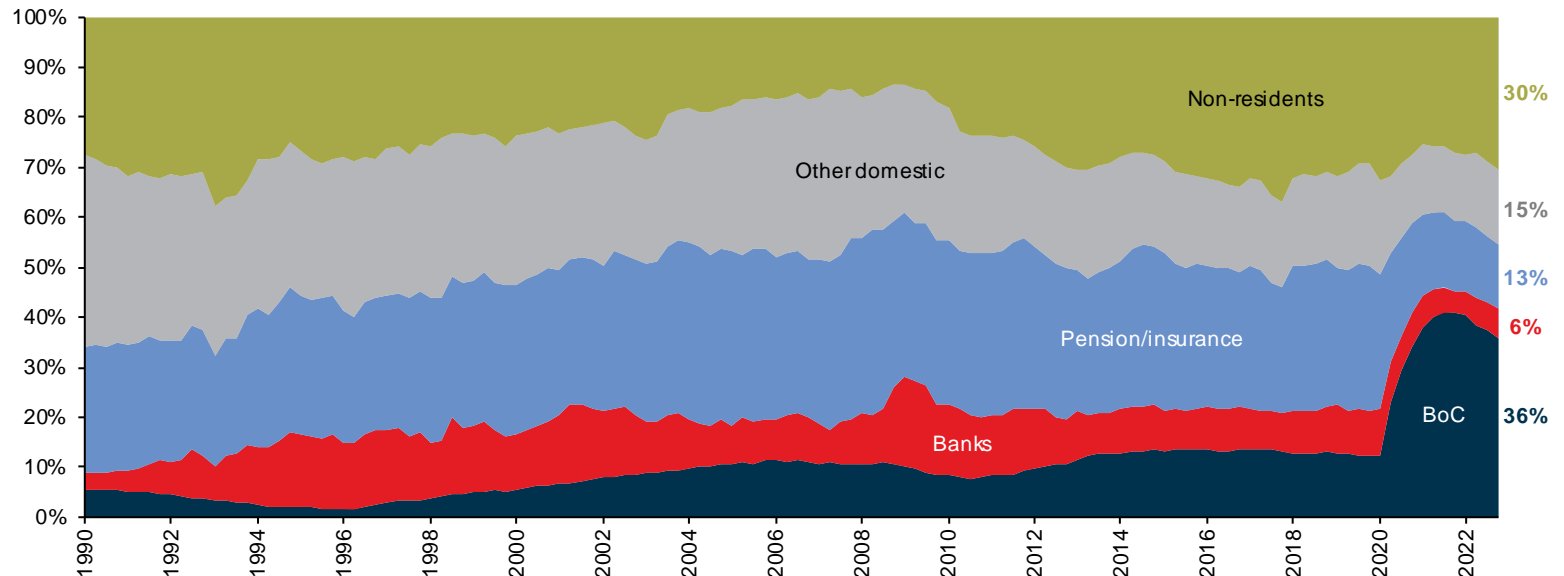
By Warren Lovely & Taylor Schleich

You'd be forgiven for losing sight of Canada's national balance sheets in the midst of extraordinary market action as investors probe the underlying health (or is it weakness?) of the US banking system. And if you did tune into StatCan's latest release of the national balance sheet accounts (and the complementary financial flow accounts) you might well have trained your focus on the household sector. It's here where elevated indebtedness and aggressive monetary policy tightening make for compelling viewing.

Beyond closely watched household debt-to-income ratios, national balance sheet data offer something of a progress report on a vital element of today's monetary policy stance: Quantitative Tightening (QT). Since initiating QT in April 2022, the BoC has dropped \$85 billion (par) of GoC bonds from its balance sheet. Now, NBS data are a touch stale (to 2022:Q4), with holdings across 40-plus sectors/investor types presented on a market value basis. Still, we can see that the BoC's first-stage bond retreat forced other investors to step up. The biggest net buyers of Canada's in the BoC QT era: non-residents (never the most predictable lot), mutual funds and chartered banks, with insurers and sub-sovereign governments also stepping in. We'd emphasize that, up till now, governments have done themselves a tremendous favour by variously steering above-plan revenue to the budget balance (thereby reducing net borrowing requirements) and, particularly at the federal level, drawing down excess cash balances (rather than placing new bonds into the market). But these fiscal/financing strategies are getting played out just as QT steps up. In the end, it will take a village (or a load of investors) to offset large-scale QT. So far so good, but much work lies ahead.

Chart 1: BoC QT (since April 2022) requires placing more GoC bonds with end investors (at home & increasingly abroad)

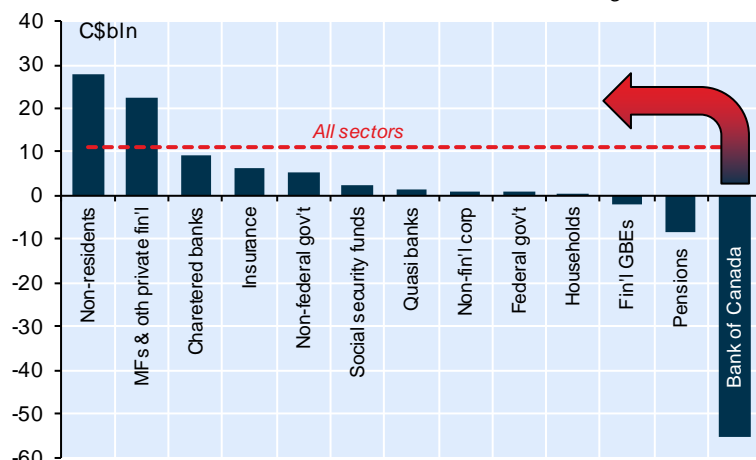
Ownership share of outstanding GoC bonds by major sector/investor type over time



Source: NBF, StatCan | Note: Based on detailed holdings (market value) from quarterly National Balance Sheet Accounts; percentages (at right) are shares as at 2022:Q4

Chart 2: It takes a village to offset BoC run-off...

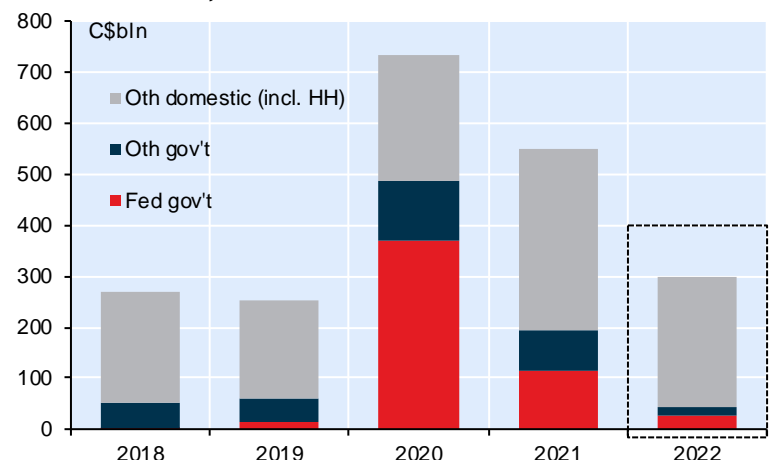
Cumulative net investment/(divestment) in GoC bonds during BoC QT era*



Source: NBF, StatCan | Note: Net investment in final 3 qtrs to 2022 (i.e., since 2022:Q1)

Chart 3: ...but plunge in government cash needs helped in '22

Total funds raised by Canada domestic non-financial sectors: Annual basis



Source: NBF, StatCan | Note: Excludes funds raised by non-residents

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