

## SSA Maple bonds: A vibrant & compellingly priced sector

By Warren Lovely

Maple bonds issued by top-rated SSAs may still constitute a relatively narrow slice of Canada's overall domestic bond market, but 2023 has painted a more vibrant supply picture. A new calendar year supply record could be in sight, leaving the outstanding stock of SSA Maple paper tilted higher (in absolute and relative terms). Investors have seen a broader array of issuers access Canada, in what might be considered a hallmark of all developing/maturing bond markets. While more issuers have responded to underlying investor demand and seized the opportunity to print north of the border, funding economics (as always) can be expected to influence the near-term bond supply impulse. Cross-currency funding arbs for SSAs seeking to issue in CAD have moved a few basis points away in recent sessions but are hardly egregious in core tenors. Meantime, market conditions remain somewhat fluid with another wave of seasonal cash (and related duration extension) due to wash over the Canadian bond market in and around September 1<sup>st</sup>. Much then can change, from both an issuer and investor perspective.

On balance, this year's SSA Maple bond crop may exhibit some 'normal' tendencies when it comes to average deal size and preferred tenor. Excluding MTNs, benchmark trades of ~\$1 billion are increasingly the norm, bolstering the liquidity profile of a sector where many of the Tier 1 names/assets already benefit from HQLA Level 1 classification. As it relates to term, 3s-5s have remained the path of least resistance (or greatest overall demand) for 2023's primary supply. We'd note that the last benchmark SSA Maple trade—IFC's mid-August \$1 billion 4.5% 3-year issue—generated outsized interest from central banks/official institutions, the bulk of this issue thus steered overseas. But we're not reading too much into that, the demand profile for short(er) AAA-rated supra paper always somewhat unique (or FX reserve manager-centric). Indeed, one generally finds a more diversified investor base in 5s or longer, as IBRD and others have aptly demonstrated time and again. As a new issue term, 7s were last meaningfully utilized by SSAs in 2020-21. Back then, domestic accounts were the predominant target and as is often the case with 5-year trades, fund managers and bank treasuries have tended to take the lion's share of 7-year SSA Maples. We'd expect as much on any prospective 5- or 7-year SSA Maple new issue.

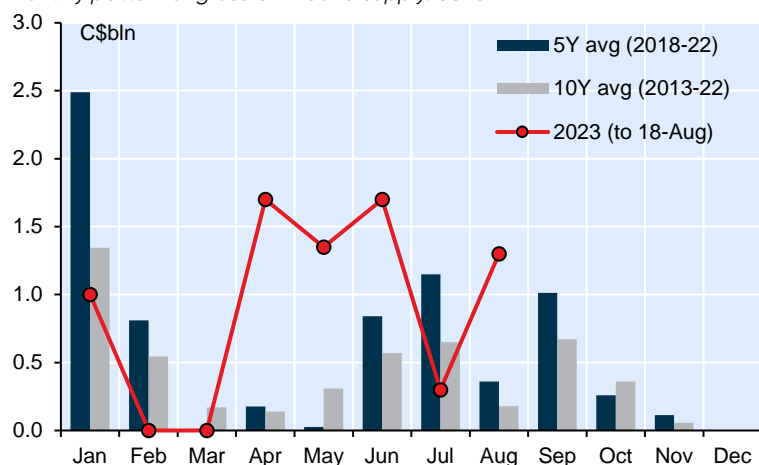
Curve dynamics notwithstanding, Canada is generally home to some of the yieldiest (i.e., cheapest) AAA-rated product on the planet. As global bond markets come to terms with a higher-for-longer policy rate environment, spread product has remained relatively well supported—in Canada and elsewhere. Despite an ongoing quantitative tightening regime by Canada's central bank, there is, to us, little near-term fear of SSAs being crowded out of Canada. Rather, gross/net bond issuance from some stalwarts/core sectors of the Canadian market has continued to recede, lending a degree of technical support relative to jurisdictions where supply is more plentiful, non-resident demand is more fleeting and/or fiscal sustainability is less assured. One key area to watch: Canada Mortgage Bonds (CMBs), which have been a vital source of AAA-rated CAD-denominated spread product for over 20 years. With market-based consultations now out of the way, a decision on the fate of the \$265 billion (o/s) CMB program can be expected this fall. Any prospective move to consolidate CMB supply with the regular Government of Canada bond program—either in whole or in part—could create even greater scope for AAA-rated alternatives. That would of course include SSA Maples (the focus of this note) but would presumably extend to Canadian PSEs, which we consider another vibrant/compelling debt capital markets storyline.

Regardless of the CMB-related 'noise', there's seemingly a growing role for SSA Maples to play in Canada's evolving domestic bond market. Whether on a liquidity or credit quality-adjusted basis, we view much of this paper as 'attractively' priced vs. key comps. The success of this year's larger SSA Maple bond crop seemingly testifies to the fact that investors (at home and abroad) have found compelling value here too.

### A detailed look at SSA Maple (i.e., CAD-denominated) bond supply & valuation

**Chart 1: SSA issuers have been drawn to Canada in 2023...**

Monthly pattern of gross CAD bond supply: SSAs

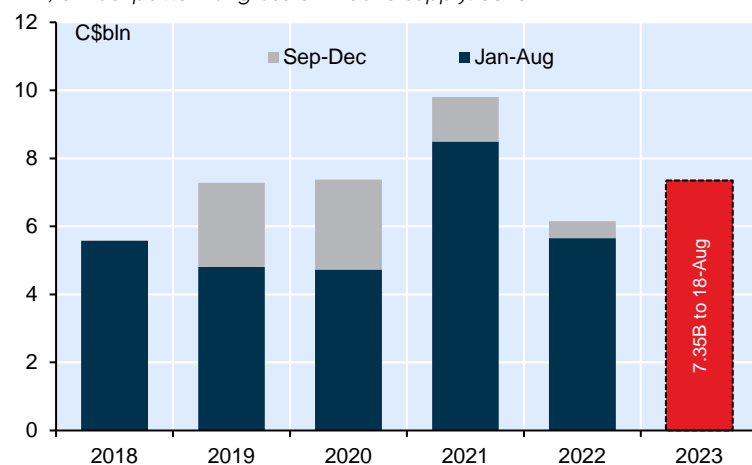


Source: NBF, Bloomberg

SSA issuers have been drawn to Canada in 2023, supply having bucked the traditional mid-summer lull. We've had a dozen trades so far this year, IFC & LBANK the latest to issue Maples.

**Chart 2: ... with a new annual supply record perhaps in sight**

YTD/annual pattern of gross CAD bond supply: SSAs

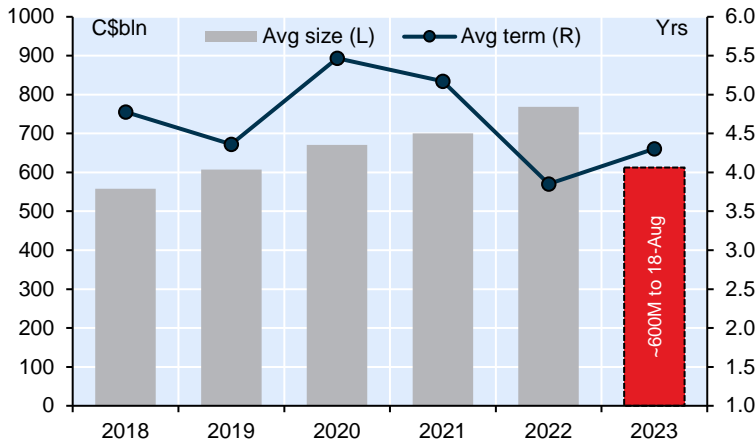


Source: NBF, Bloomberg

We're seeing meaningful SSA Maple bond supply for a sixth consecutive year. With >\$7bn in the books—and likely more to come—primary activity could set a new record in calendar 2023.

**Chart 3: Tenor & average deal size not much changed...**

Average trade size & term to maturity: CAD issuance by SSAs

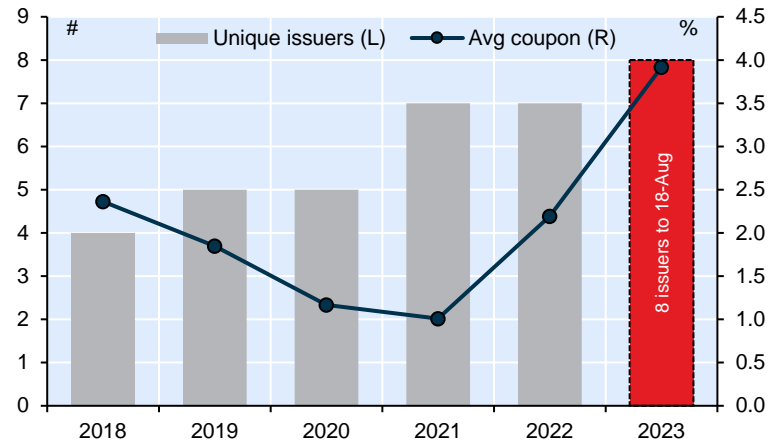


Source: NBF, Bloomberg

Average trade size doesn't look much changed with \$1bn benchmarks increasingly the norm. Supply has been skewed to 3s-5s. The 7-year tenor was last meaningfully utilized in 2020-21.

**Chart 4: ... but greater diversity & much juicier coupons in '23**

Number of unique issuers & average coupon: CAD issuance by SSAs

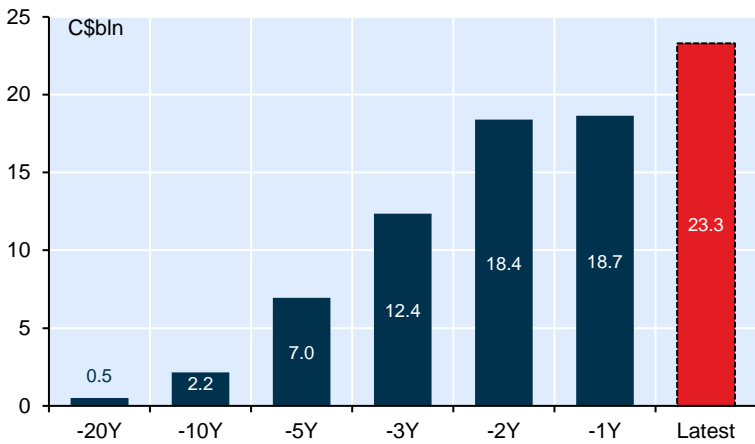


Source: NBF, Bloomberg

More SSAs are coming to Canada, bolstering issuer diversity. The biggest change is the yield backdrop, Tier 1 SSA paper north of 5% in 2s and more like 4½% in oft-issued 5-year tenor.

**Chart 5: Growing stock of 'supra' bonds in Canada**

Total holdings of 'supranational' bonds: FTSE Canada Universe Bond Index

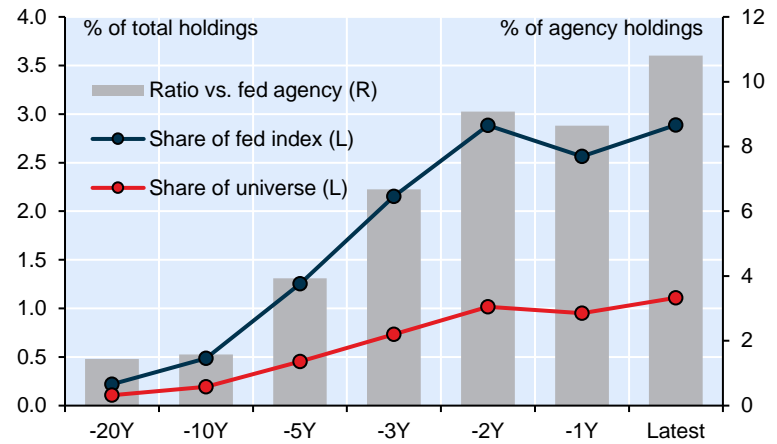


Source: NBF, FTSE Russell | Note: Relative to 18-Aug-2023 closing levels

Consistent supply means Canada's stock of index-eligible 'supranational' bonds has stepped up, doubling in the past three years. Note: Not all Maple SSA issues are captured in the index.

**Chart 6: Relative weight/importance on the rise**

Share of 'supranational' bonds: FTSE Canada Universe Bond Index

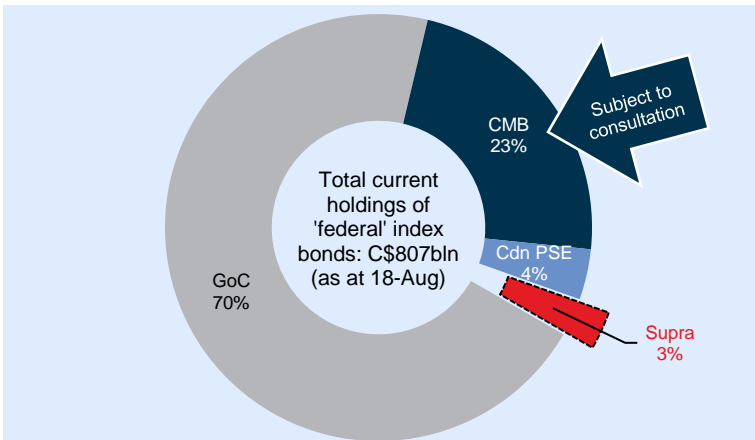


Source: NBF, FTSE Russell | Note: Relative to 18-Aug-2023 closing levels

The 'supra' share of Canada's index-eligible bond universe (and related sub-indices), while still modest, is growing. So too is the relative weight vs. federal agency debt—the most direct comp.

**Chart 7: Still a modest slice of Canada's bond market pie...**

Share of 'federal' bonds by issuer: FTSE Canada Universe Bond Index

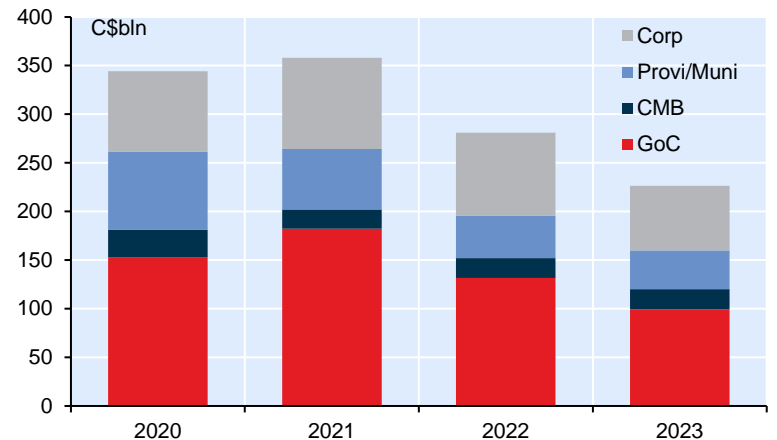


Source: NBF, FTSE Russell | Note: Based on 18-Aug-2023 closing levels

At 3% of the 'federal' index, the current stock of outstanding 'supra' bonds isn't far removed from Canadian PSEs—another vibrant/growing issuer class, as CPPIB Capital just reminded us.

**Chart 8: ... but growing room for SSAs (now & into future?)**

Gross CAD bond supply by select issuer class: Jan-Jul YTD totals

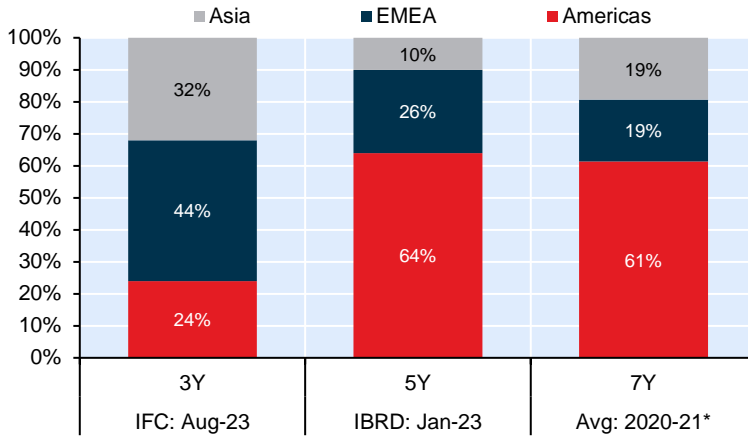


Source: NBF, BoC, Bloomberg | Note: Par value of gross marketable supply of CAD bonds

Supply trends hint at scope for marginal SSA Maple supply. Issuance has receded in core/traditional sectors, while the future of the AAA-rated CMB program remains in question.

**Chart 9: Geographic buyer base varies by term/structure**

Select CAD SSA bond distribution stats by issuer/term: Geography

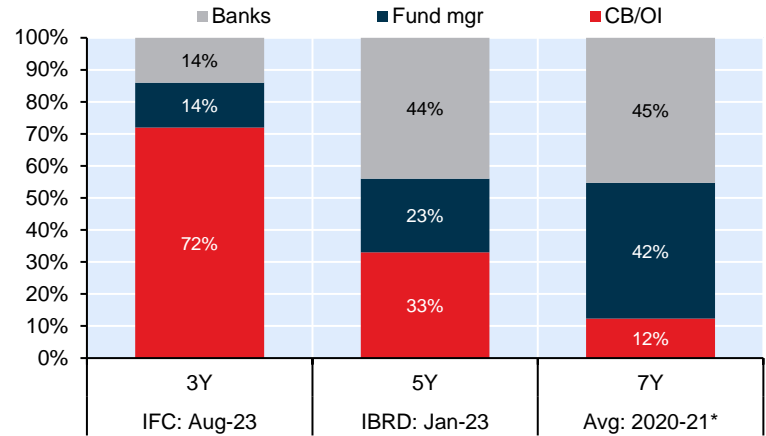


Source: NBF, IFC, IBRD, IDB, EIB | Note: 7Y stats are simple average of 3 new issues

Notwithstanding potential CMB upheaval, SSA Maples attract a diverse investor base. Don't read too much into the IFC's recent 3-year, the majority of which was placed offshore...

**Chart 10: Ditto when looking at investor type**

Select CAD SSA bond distribution stats by issuer/term: Investor type

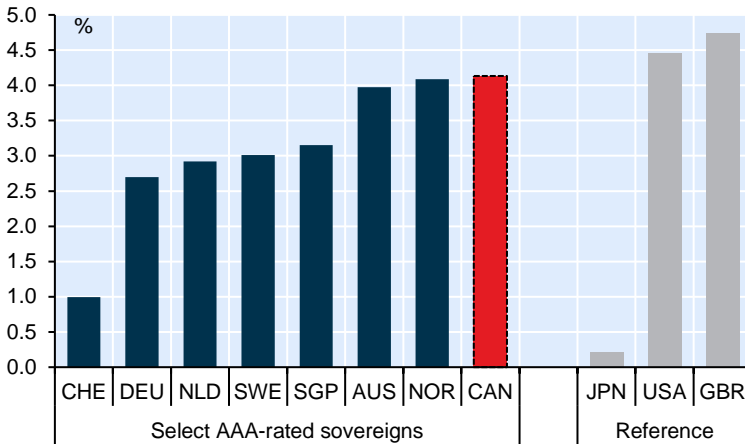


Source: NBF, IFC, IBRD, IDB, EIB | Note: 7Y stats are simple average of 3 new issues

... into central banks/official institutions. You'll see a more domestic (i.e., Canada-centric) skew to 5s and 7s, where fund managers and bank treasuries tend to supplant official accounts.

**Chart 11: Canada home to some of 'cheapest' AAA product**

Select 5-year sovereign benchmark bond yields: Local currency, 21-Aug

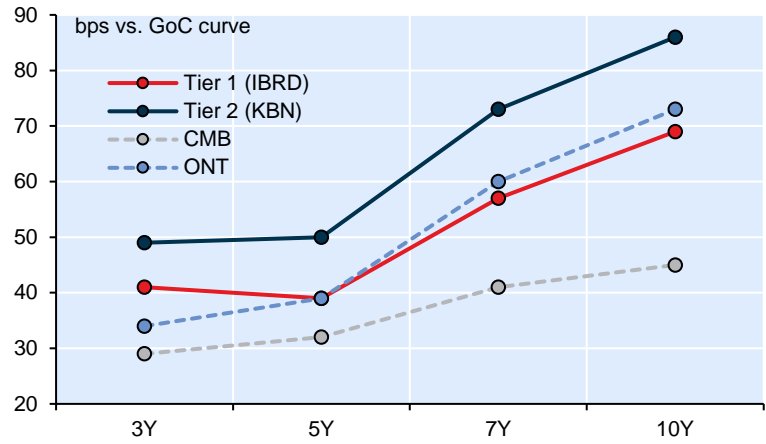


Source: NBF, Bloomberg | Note: Reference sovs (at right) are not fully AAA-rated

The value proposition is always multi-dimensional. At its most basic, it is hard to argue with the yield on offer in Canada, the country home to some of the cheapest AAA paper on the planet.

**Chart 12: SSAs provide marginal spread to AAA curves**

Constant maturity CAD spread indications vs. GoC curve: 21-Aug

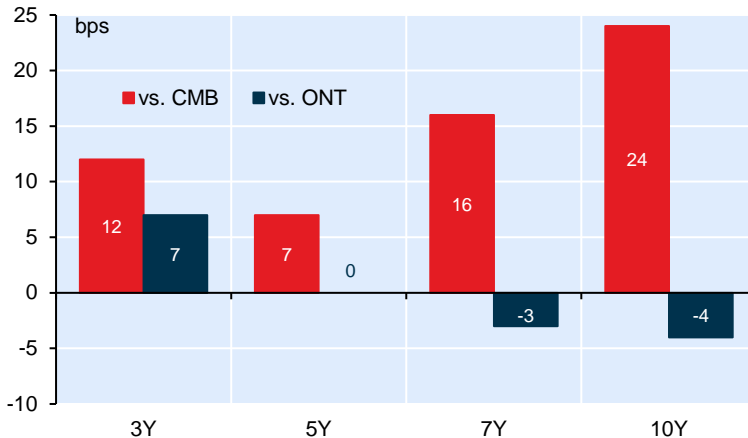


Source: NBF | Note: Indicative spreads; IBRD/KBN used as representative SSAs

On top of today's juicier risk-free curve, SSA Maples provide non-trivial yield enhancement. In part, today's steeper credit curve (from 5s through 10s) captures a still flat/inverted yield curve.

**Chart 13: Meaningful pick to CMB moving out curve**

CAD basis spread for representative Tier 1 SSA vs. CMB/provi: 21-Aug

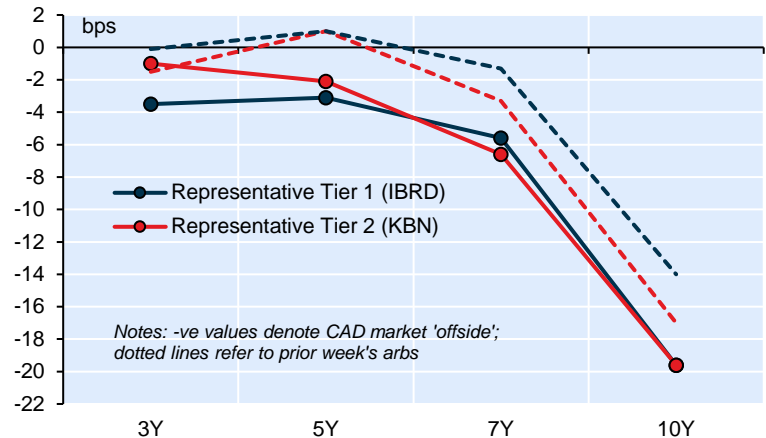


Source: NBF | Note: Based on indicative levels; IBRD used as representative SSA

Tier 1 SSAs—many of which deemed HQLA Level 1—trade back of lower-rated provis down the curve and are closer to flat in 5s. The pick to like-rated CMB, while indicatively narrowest in 5s, looks increasingly compelling moving out the curve, currently hovering in the mid-teens in 7s.

**Chart 14: As always, x-currency funding arbs bear watching**

Notional CAD funding 'arb' for representative Tier 1/Tier 2 SSAs: 21-Aug



Source: NBF | Note: Based on indicative levels; IBRD/KBN used as representative SSAs

As for supply expectations, cross-currency funding arbs bear watching. Here, we note that CAD pricing has moved a bit away of late. Despite ongoing investor demand in the uber-deep USD market, Canada could continue to beckon to SSA issuers through year end and beyond.



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