

Provincial bond supply: 'The one crop that never fails'

By Warren Lovely, with assistance from Marc-Olivier Archambault

Chocolate lovers are surely despairing over Africa's failed cocoa crop. Closer to home, dry conditions have boosted anxiety over Canada's eventual harvest, this after what had already been a challenging 2023 growing season. But as an esteemed colleague quipped the other day, 'provincial bonds may be the one crop that never fails'. Indeed, we're right now staring at bumper crop of provi bonds. While the worst of the pandemic may be behind us, slower economic/revenue growth, spending/wage pressure, sizeable capital plans and larger refinancings mean provincial supply might not be so far removed from the prior COVID-related peak.

Indeed, you may have noted the rather breakneck pace to provincial supply since 2024 got going. It's taken barely 80 days to clear \$33½ billion, a figure covering all provinces and all currencies of issue. In a so-called 'normal' year, gross supply might be hovering in/around \$20 billion at this point. So ya, 2024 has thus far been bountiful.

Part of the early year surge reflects an effort (by some) to pre-finance future needs. Provinces technically flip the page on a new fiscal year on April 1st. Strictly speaking, the more than can be sourced ahead of time the less cash is needed down the road. But having combed through all available guidance, and applying our own 'expert judgement', we don't expect supply to really let up. Rather, our

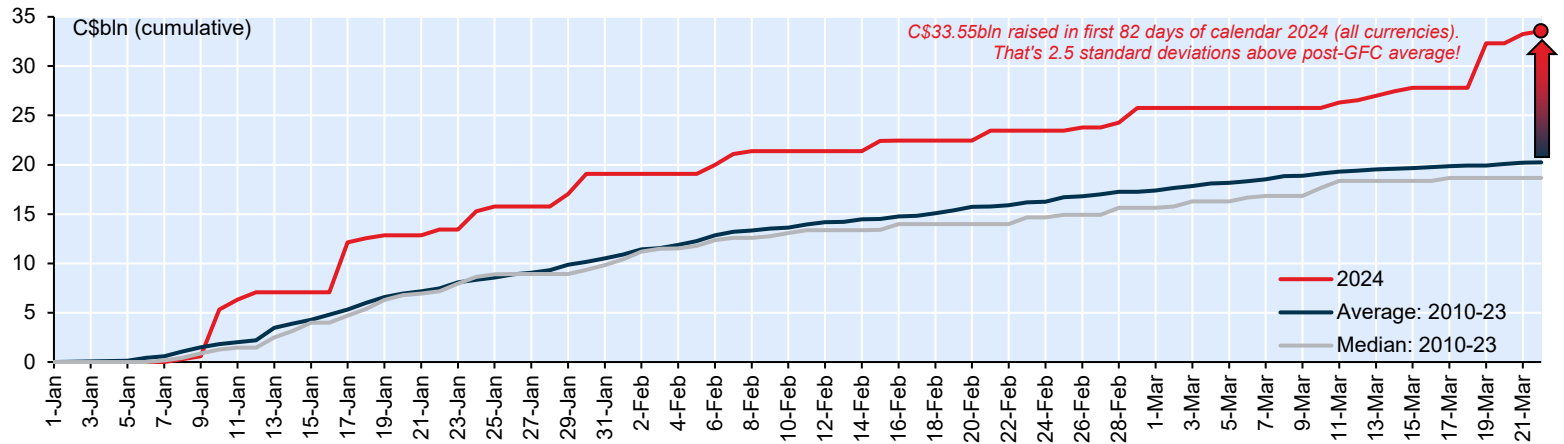
current working assumption sees ~\$130 billion in gross long-term needs for fiscal 2024-25, the implied monthly run-rate approaching \$11 billion. Note: We'll re-calibrate after Ontario, Manitoba budgets.

To be fair, there's been a reasonably healthy appetite for provi paper of late, part of a broader investor feeding frenzy. The all-important domestic market has betrayed few signs of legitimate indigestion. Granted, there's been some re-pricing of relative relationships, those with outsized deficits, borrowing needs and perceived credit risk leaking wider vs. names seen as on a more straight-and-narrow budgetary path. This process is perhaps not yet complete.

As for other broad-based expectations? International markets can/will be leaned on to help clear/advance today's chunky borrowing needs. Of the \$130 billion fiscal year total cited above, some 30% could be steered to international markets (i.e., \$40 billion CAD equivalent). As routinely demonstrated, deep pools of liquidity south of the border and/or across the seas can advance programs quickly, the pricing of recent international deals relatively attractive (all else equal). Meantime, in the domestic market, history suggests that the duration of new issues may need to be shortened in order to accommodate such a supply surge, 10s likely to be heavily leaned on.

Chart 1: Provincial issuance races ahead of 'normal' levels to start 2024, with plenty more to come

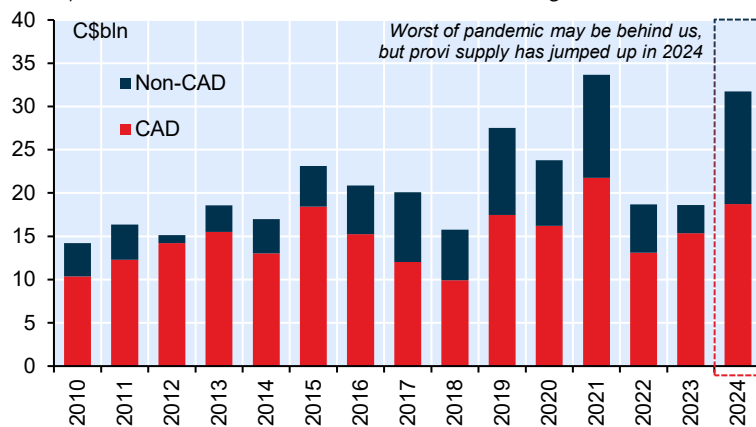
Progression of cumulative gross provincial bond issuance (all currencies) through March 22nd, contrasting 2024 with prior trend



Source: NBF, BBG | Note: Based on known marketable bond issuance; all provincial direct & guaranteed issuance in all currencies

Chart 2: Early year surge includes chunky international deals

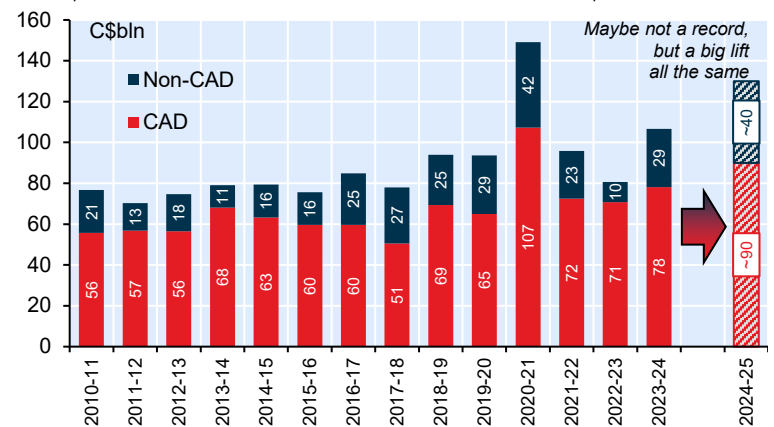
Gross provincial bond issuance (CAD & non-CAD) through March 22nd



Source: NBF, BBG | Note: Refers to completed gross bond issuance by 22-Mar of each year

Chart 3: Fiscal 2024-25 could bring ~\$130bn (maybe more?)

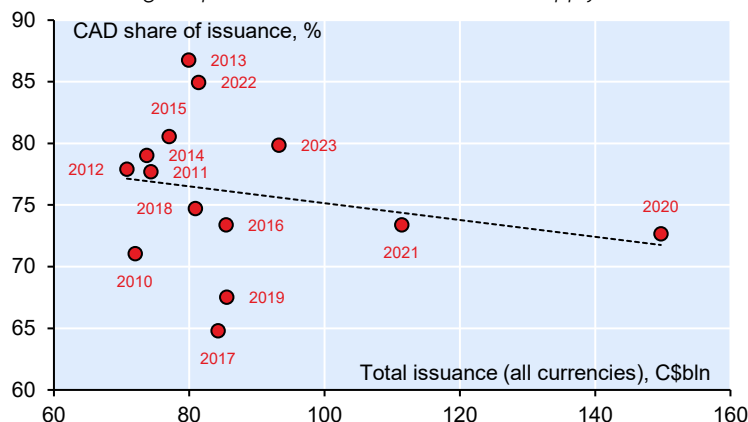
Gross provincial bond issuance on FY basis, incl. NBF assumption for 2024-25



Source: NBF, BBG | Note: Refers to Apr-Mar sum; 23-24 to 22-Mar; 24-25 is NBF working assumption, contingent on pre-funding & to be re-calibrated after Ont/Man budgets

Chart 4: International markets as supply shock absorber?

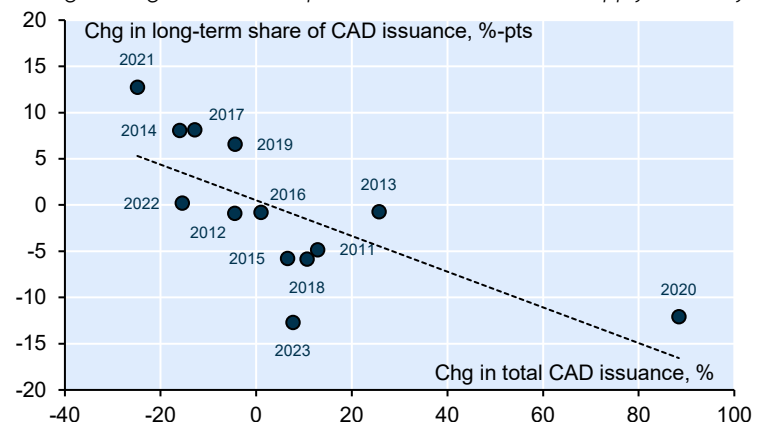
CAD share of gross provincial bond issuance vs. total supply



Source: NBF, BBG | Note: Based on calendar year supply from 2010-23

Chart 5: Supply surges often involve moving down curve

Change in long-term share of provincial issuance vs. total supply: CAD only



Source: NBF, BBG | Note: Based on calendar year supply from 2010-23; CAD issues only



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