



## Provincial funding able to gear down from here

By Warren Lovely

Well that was truly special. In the past three months (i.e., April to June), Canada's provinces collectively secured the equivalent of C\$62 billion from debt capital markets—a remarkable tally, eclipsing the extraordinary fireworks of 2020:Q2. When added to the ~C\$43 billion issued in calendar Q1, year-to-date provincial bond supply (across all currencies) is snick shy of C\$105 billion. As far as mid-year issuance tallies go, that's 3½ standard deviations above the post-GFC trend.

While perhaps not yet fully appreciated, provincial bond issuers will be in a position to slow things down (at a time of their choosing). On a fiscal year basis, more than half of the total 2024-25 borrowing requirement was completed in the first quarter of the fiscal year—a tremendous head start, which in some cases reflects a concerted effort to advance funding programs given the political calendar.

International markets have contributed mightily to record YTD supply, a trend that remained in evidence in June (where five foreign currency trades netted the equivalent of C\$6.6 billion). Notwithstanding the benefits of international supply (including supply diversion, investor diversification, sheer depth of demand), we'd expect a material

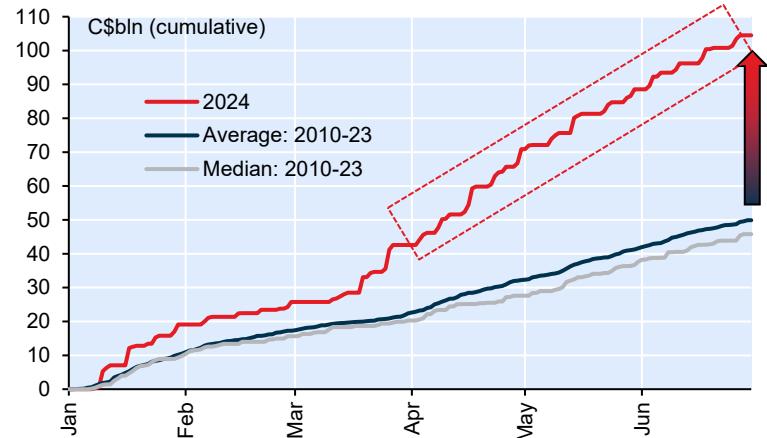
moderation in the second half of the calendar year, a development that could see xccy basis swap spreads moving to the left.

Domestically, a supply moderation already looks to be taking shape. After C\$15.4 billion in April and another C\$12.2 billion in May, domestic (i.e., CAD-denominated) bond issuance 'slowed' to C\$9.3 billion in June. Based on our read of remaining funding needs and a likely currency split, the pace of domestic provi supply should downshift hard in the second half, to as little as one-half of the Q2 tempo.

As for valuations, it's perhaps impressive that spreads vs. govies have held in so well in the face of such a supply onslaught. Credit a heretofore-healthy risk appetite. On that score, we're mindful of a gathering slowdown in the US, which could mount a challenge to credit more generally. No question, provi valuations are most exceptional on an asset swap basis, Ontario 10s cheaper vs. OIS today than at any time in the risk-free reference rate era. If, like us, you felt 10-year swap spread were biased higher, a less forceful bond supply impulse could translate into potential ASW performance, even allowing for some suffering in overall investor risk sentiment.

### Chart 1: A remarkable quarter comes to an end...

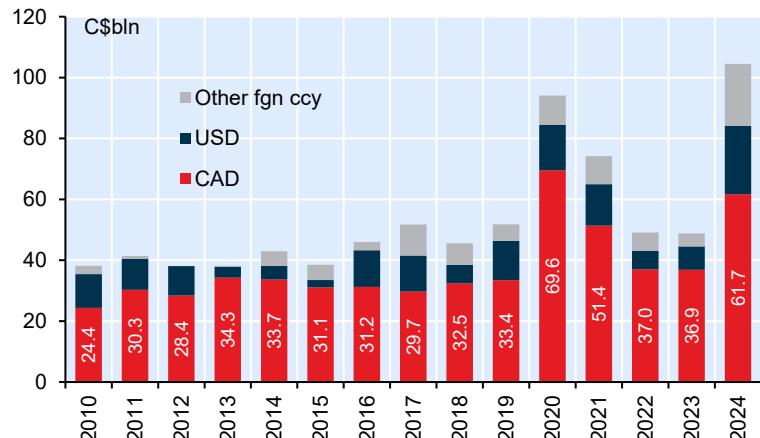
Cumulative total of provincial govt gross bond supply: All currencies



Source: NBF, BBG | Note: Cumulative total of all-currency daily issuance

### Chart 2: ... as provi bond supply pace breaks records

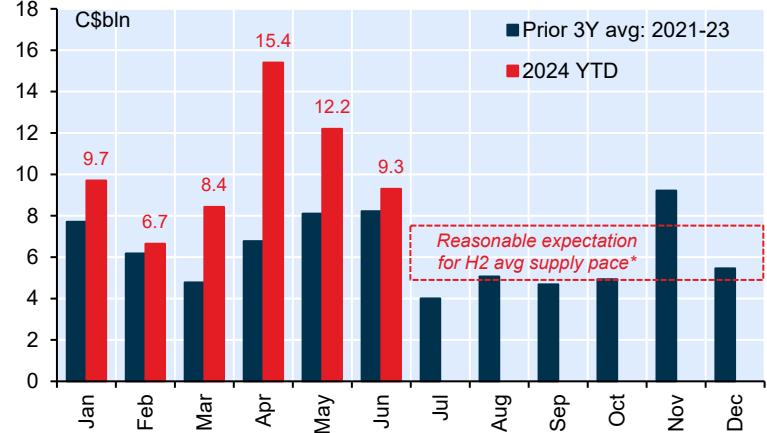
Year-to-date provincial govt gross bond supply: By currency of issue



Source: NBF, BBG | Note: Year-to-date refers to Jan-Jun

### Chart 3: Domestic issuance pace can/will slow

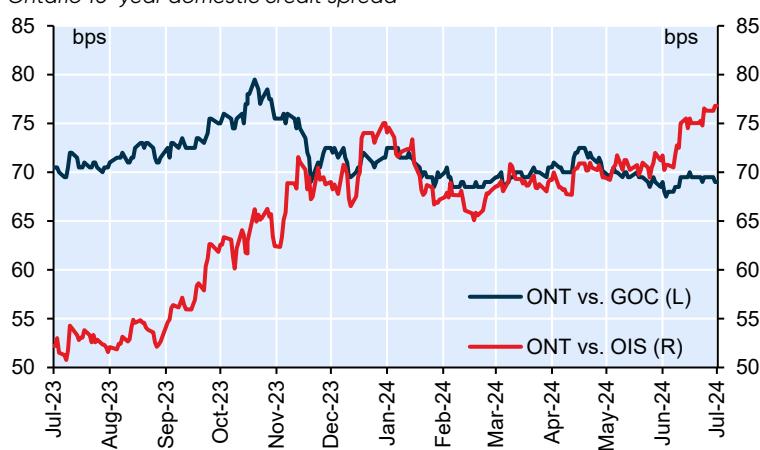
Monthly pattern of provincial govt gross bond supply: CAD issues only



Source: NBF, BBG | Note: H2 range is illustrative based on assumed borrowing needs & ccy split; range denotes monthly avg; individual months could exceed top end of range

### Chart 4: Credit spread exceptionalism? In a sense, yes!

Ontario 10-year domestic credit spread



Source: NBF | Note: Based on NBF's daily constant maturity spread indications



## 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 CIRO), 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.