

Mining MTRS with a view to select BoC risks

By Warren Lovely & Jackson Atkinson

The Bank of Canada's flagship publication focused on financial system risks—officially dubbed the *Financial Stability Report*—spoke to potential vulnerabilities. Consistent with a generalized improvement in economic/financial conditions, the FSR signaled enhanced readings on bond market liquidity (higher) and volatility (lower), even if conditions aren't quite what they were pre-rate hikes.

As it happens, CIRO released the latest tranche of bond and money market secondary trading volume data in the run-up to the FSR. While but one way of quantifying liquidity, these volume data help put the BoC's narrative to the test. As always, a few things caught our eye in the MTRS stats... above and beyond National Bank's ongoing #1 position in monthly GoC bond trading.

Total domestic bond trading (all sectors, tenors, and dealers) topped \$1.5 trillion in April. While not quite a record, that's far above the level typical for that month of the year. As a reminder, seasonality in Canada's bond market makes month-to-month comparisons (of secondary volumes or primary supply) hazardous. Instead, consider year-to-date volumes in the sector that accounts for over 80% of secondary trading: Government of Canada (GoC) bonds.

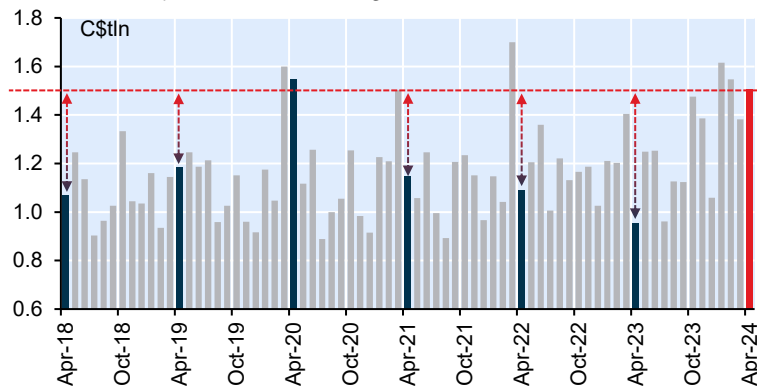
The roughly \$5 trillion of GoC bonds that changed hands in the first four months of 2024 was 16-42% higher than any prior YTD period (from 2018 on). GoC volumes are up across the curve. Sounds and looks liquid enough, even after controlling for an enlarged bond stock.

MTRS data reinforce the point that a good amount of leverage is being taken on. Since the pandemic hit, the ratio of repo to cash volumes in GoC bonds has steadily increased. As per the FSR, asset managers are increasingly using leverage to boost returns. While domestics are without a doubt embracing this strategy, it seems international investors have been drawn to Canada in greater numbers and/or greater depth. Non-residents have accounted for over 30% of GoC trading so far this year. It means more Canadas are now traded with foreign investors than with domestic banks and institutional clients combined. Separate data on GoC bond holdings show non-residents increasing their ownership stake. As of February, a record \$338 billion of GoC bonds were held outside the country, accounting for 32% of publicly available issues (excl. BoC holdings).

In all, the growing presence of international investors is indeed a source of marginal bond market liquidity. We've generally welcomed this incremental demand, since deficit financing and QT means there's a good deal of Canada bonds to clear. Of course, with its risk management hat on, the BoC cautions that related repo market leverage, growth in the basis trade, and overall financial system interconnectedness could amplify price movements should leveraged positions be unwound quickly and in size. This is what can happen to a developed bond market open to the world. For the time being, Canadian bond desks seem comfortable enough with this risk and welcome liquidity when/where they can get it.

Chart 1: April not a record, but very active all the same

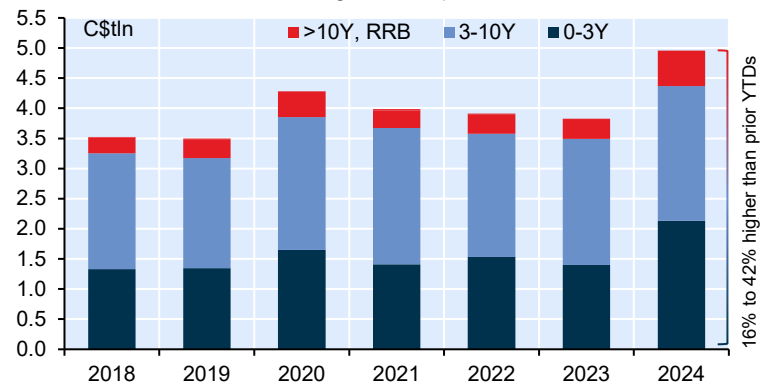
Canada monthly bond market trading volume: All sectors/tenors



Source: NBF, CIRO | Note: Latest is Apr-24; prior Aprils highlighted to ease comparison

Chart 2: GoC volumes on the rise all across the curve

GoC bonds: Year-to-date trading volume by tenor/bucket



Source: NBF, CIRO | Note: For all periods, year-to-date refers to Jan-Apr

Chart 3: Relatively brisk activity in Canada's repo market

GoC bonds, all tenors: Ratio of repo trading vs. cash trading



Source: NBF, CIRO | Note: For 2024, full yr avg refers to Jan-Apr


Chart 4: Non-resident bond investors appear turned on

GoC bonds, all tenors: Non-resident share of total trading




Source: NBF, CIRO | Note: For 2024, full yr avg refers to Jan-Apr

Table: A detailed look at secondary trading statistics in Canada's bond market
Canada secondary bond trading by sector/tenor: Monthly (top) & year-to-date (bottom)

< Canada bond market sector/tenor >												
C\$/bln	All bonds	All tenors	GoC				Other sectors					
			<3Y	3-10Y	>10Y	RRBs	Crowns	Provi	Muni	Corp	MBS	
Latest month: Apr-24	1,506.1	1,227.0	543.2	436.0	245.1	2.7	66.1	130.3	4.7	66.9	7.8	
Share of total trading	100%	81.5%	36.1%	28.9%	16.3%	0.2%	4.4%	8.7%	0.3%	4.4%	0.5%	
Y/Y chg: Apr-24 vs. Apr-23	58.3%	58.8%	73.7%	11.8%	255.1%	230.7%	85.7%	45.7%	38.4%	65.9%	49.9%	
Monthly share by counterparty	Dealers	16%	 GoC monthly share by counterparty type refers to all-tenor total	11%	8%	6%	6%	13%				
	Anony systems	24%		36%	26%	37%	4%	0%				
	Banks	11%		8%	3%	4%	2%	17%				
	Clients: Instit'l	19%		29%	49%	42%	65%	69%				
	Clients: Retail	0%		1%	1%	7%	6%	0%				
	Non-residents	30%		15%	11%	3%	17%	0%				
Prior months of trading: More recent to oldest	Mar-24	1,382.1	1,122.4	467.3	529.3	123.9	1.9	68.7	117.5	3.9	59.6	6.6
	Feb-24	1,546.8	1,266.5	559.7	596.4	109.3	1.1	62.5	134.2	4.0	62.2	9.8
	Jan-24	1,615.0	1,344.0	564.3	674.5	104.3	0.8	63.8	122.7	3.4	65.9	10.1
	Dec-23	1,058.8	827.6	267.7	439.3	118.7	2.0	60.1	103.2	3.8	47.3	11.6
	Nov-23	1,385.9	1,114.5	367.8	481.5	263.9	1.3	72.1	111.6	4.6	65.6	10.7
	Oct-23	1,475.3	1,252.4	501.9	556.8	192.2	1.4	46.0	107.3	3.4	53.4	7.5
	Sep-23	1,124.1	856.3	315.0	452.7	86.8	1.8	62.6	120.9	4.2	64.5	10.7
	Aug-23	1,125.6	922.1	347.0	485.8	87.6	1.6	49.3	86.5	4.5	50.0	10.3
	Jul-23	961.8	792.2	366.1	367.1	58.1	0.9	35.7	70.9	2.8	49.7	7.7
	Jun-23	1,252.2	1,009.1	369.2	536.0	103.0	0.8	61.0	108.4	3.7	56.3	7.3
May-23	1,249.1	1,038.2	413.9	504.3	118.5	1.5	42.0	102.5	3.2	54.0	3.6	
Reference: Month (Apr)	Apr-23	951.3	772.5	312.6	390.1	69.0	0.8	35.6	89.4	3.4	40.3	5.2
	Apr-22	1,090.6	842.6	330.6	421.0	88.8	2.2	48.3	137.9	3.2	47.4	6.9
	Apr-21	1,145.8	890.7	328.3	481.2	75.2	6.0	56.4	139.5	6.2	48.2	5.4
	Apr-20	1,545.4	1,234.9	421.7	619.6	191.7	1.9	64.5	161.8	3.2	64.4	12.8
	Apr-19	1,185.2	967.1	380.2	466.5	118.3	2.2	51.9	100.1	3.1	48.4	8.0
	Apr-18	1,070.0	838.7	334.9	428.8	72.7	2.2	57.7	107.5	2.9	47.7	9.2

^ Monthly volumes (above) ^

v Year-to-date volumes (below) v

< Canada bond market sector/tenor >												
C\$/bln	All bonds	All tenors	GoC				Other sectors					
			<3Y	3-10Y	>10Y	RRBs	Crowns	Provi	Muni	Corp	MBS	
2024 YTD: Jan-Apr	6,050.1	4,959.9	2,134.5	2,236.2	582.7	6.5	261.1	504.8	16.0	254.7	34.4	
Share of total trading	100%	82.0%	35.3%	37.0%	9.6%	0.1%	4.3%	8.3%	0.3%	4.2%	0.6%	
YTD chg: 2024 vs. 2023	26.9%	29.5%	52.2%	7.1%	75.1%	15.3%	13.3%	12.9%	36.6%	25.6%	67.2%	
YTD share by counterparty	Dealers	16%	 GoC YTD share by counterparty type refers to all-tenor total	11%	8%	8%	7%	16%				
	Anony systems	24%		34%	29%	38%	4%	1%				
	Banks	11%		9%	3%	4%	2%	21%				
	Clients: Instit'l	18%		31%	46%	39%	65%	62%				
	Clients: Retail	0%		1%	1%	7%	6%	0%				
	Non-residents	31%		14%	12%	4%	15%	0%				
Reference: YTD (Jan-Apr)	2023	4,769.2	3,829.3	1,402.4	2,088.7	332.7	5.6	230.4	447.0	11.7	202.9	20.5
	2022	4,979.4	3,914.3	1,533.5	2,043.3	324.7	12.8	265.3	536.8	14.9	212.2	21.4
	2021	5,083.4	3,986.7	1,408.6	2,263.2	293.6	21.4	288.4	539.7	22.5	221.7	19.5
	2020	5,367.2	4,286.3	1,648.9	2,202.9	425.5	9.0	276.9	506.1	13.9	229.5	38.4
	2019	4,425.1	3,498.2	1,348.2	1,824.0	316.3	9.7	227.2	405.1	11.3	218.8	28.6
	2018	4,400.1	3,523.5	1,331.7	1,920.6	263.4	7.8	210.6	396.5	11.8	198.2	35.0

Source: NBF, CIRO | Note: NBF summary of secondary trading statistics; select sectors shown; GoC trading broken down by tenor; volumes refer to all-dealer total; further details available on request



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