

## Further perspective on non-res leverage in Canada's bond market

By Warren Lovely & Jackson Atkinson

As we wrote yesterday, the BoC's recently released *Financial Stability Report* flagged a number of risks, not least of which was the increased use of leverage by hedge funds (many of which being located outside the country). We mined CIRO's monthly MTRS stats to offer some perspective on this evolving 'risk' (which might alternatively be viewed as major source of secondary market liquidity). Given interest in the topic, this *Addendum* provides a few extra images focused on repo and non-resident volumes in Canada's domestic bond market.

As per Chart 1, total bond market repo trading surpassed 20 yards in the current year-to-date period (covering January to April). That's 30-70% higher than prior YTD tallies from 2020 to 2023. Repo volumes are outpacing growth in cash trading, as evidence by the expanding ratio of repo-to-cash volumes in key segments of the market.

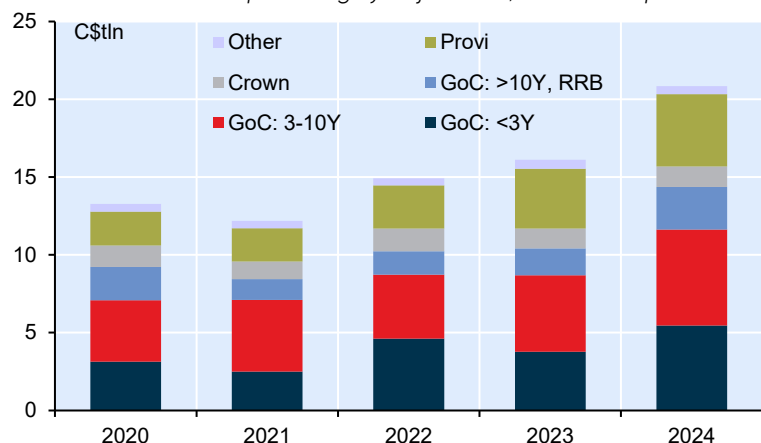
International hedge funds are hardly the only investors deploying leverage. Among others, our domestic pension funds and insurers opt for this strategy too. But the enlarged footprint of non-resident investors has become harder to ignore these days, particularly in the GoC market.

As we noted yesterday, more GoC bonds are now being traded with non-residents than with domestic banks and institutional clients combined (Chart 2). This is unique, at least in the MTRS 2.0 reporting era. For those seeking finer detail on the major sources of secondary market liquidity (i.e., share of trade by counterparty type), we'd direct you to Chart 3.

And stay tuned for Canada's international transactions in securities release on Friday, which will provide an update on non-resident net investment in domestic securities.

### Chart 1: Repo volumes have stepped up and up

Canada bond market repo trading by major sector/tenor: Jan-Apr



Source: NBF, CIRO

### Chart 2: Non-residents as a growing source of GoC liquidity

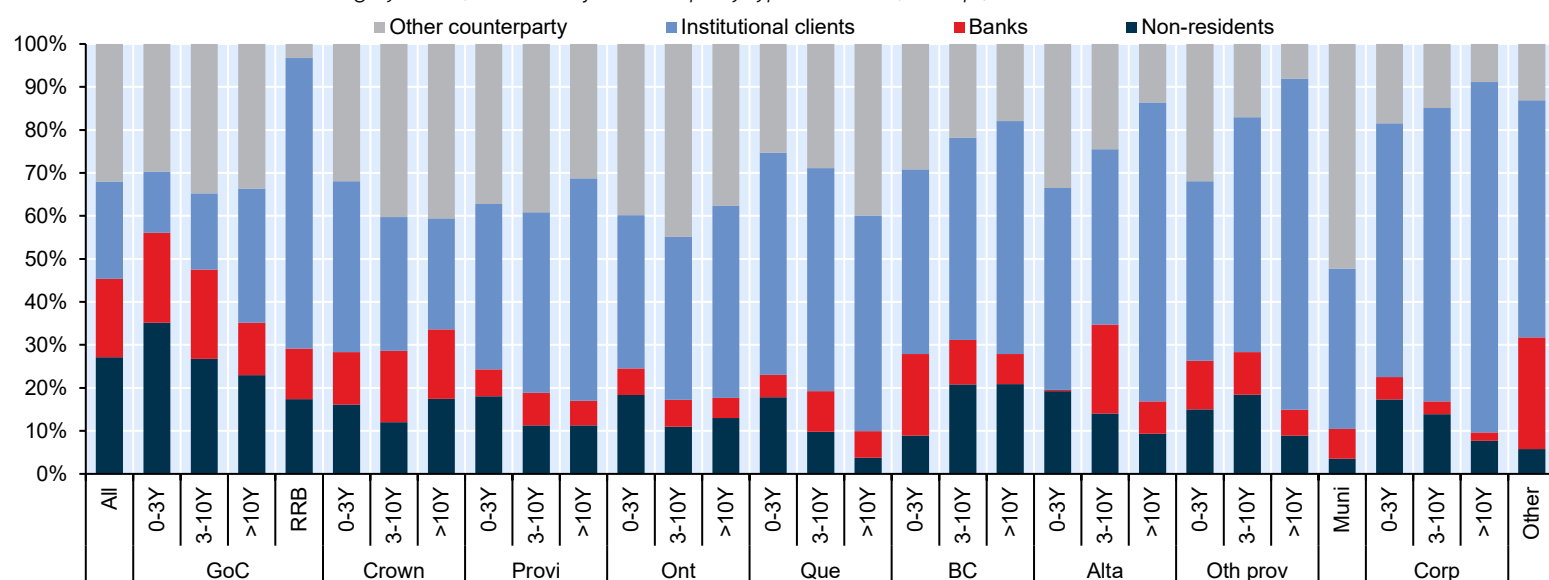
GoC bond trading: Ratio of non-resident volume vs. banks/institutional clients



Source: NBF, CIRO | Note: Non-residents vs. combined total of banks/institutional clients

### Chart 3: A closer look at secondary bond trading across sectors/tenors by major counterparty type

Distribution of Canada bond trading by sector/tenor & major counterparty type: 2024YTD (Jan-Apr)



Source: NBF, CIRO



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