

When is a turnover a good thing? *[Hint: When it happens on a trading desk not the gridiron]*

By Warren Lovely

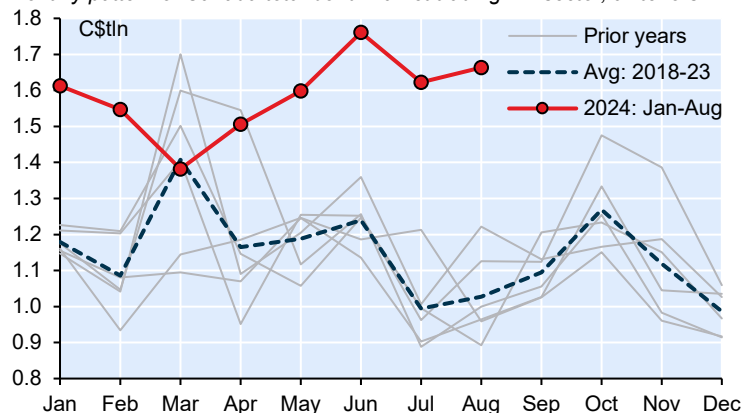
With week one of the NFL in the books, it's time to assess how your fantasy football team fared. Did your key players rack up the yards (and points) or were you plagued by fumbles and interceptions? Turnovers, after all, are the bane of football coaches (and fans) everywhere. But it's a different story on bond desks, where ample 'turnover' is a market condition to be cherished. Judging from the latest batch of volume data, there's still a fair bit to cheer about in Canada's domestic bond market.

As per CIRO, \$1.66 trillion of Canadian dollar bonds changed hands last month. That blew away the prior record for August (in the MTRS 2.0 regime). Relatively brisk trade isn't a new development mind. Canada's bond market has seen unprecedented seasonally adjusted volumes since the spring (Chart 1). Updated year-to-date tallies reinforce this ultra-high-volume narrative. Through the first eight months of 2024, total secondary bond trading volumes (all sectors, all tenors) stand 35% higher than the corresponding year-earlier period.

Total trading volumes are up everywhere you look. Without minimizing developments in crowns, provis, munis or corps, the reality is GoC bonds always account for the lion's share of total trade (84% in August).

Chart 1: Bond trading volumes in unprecedented territory...

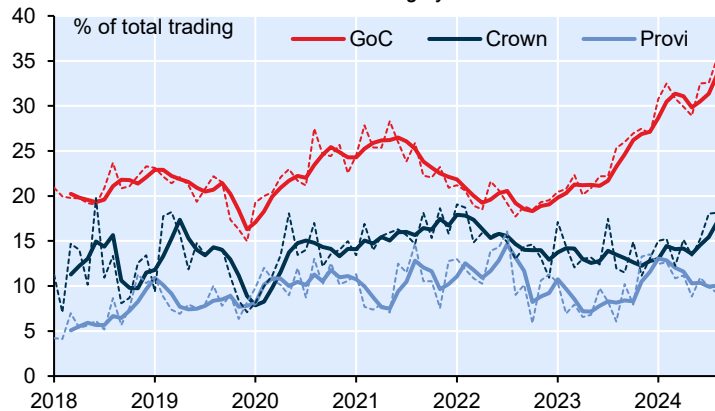
Monthly pattern of Canada total bond market trading: All sector, all tenors



Source: NBF, CIRO

Chart 3: ...and with non-residents increasingly active...

Non-resident share of Canada bond trading by select sectors



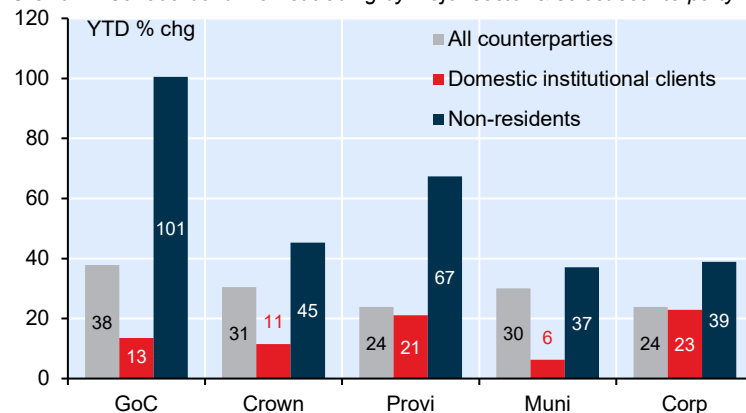
Source: NBF, CIRO | Note: Heavy/solid lines are 3M mov avg; light/dotted lines are monthly

As we've routinely highlighted, burgeoning GoC bond trading volumes capture a broader and deeper foreign investor base. Non-resident trading of GoC bonds has fully doubled on a year-to-date basis (Chart 2). Looked at another way, foreign investors accounted for one-third of total GoC bond trading in the past three months vs. a pre-2024 average of 22% (Chart 3). Simply put, non-residents are an increasingly important component of Canada's bond market.

It follows that non-residents—a category that would comprise a range of investor types from official institutions to hedge funds, the latter often deploying leverage—have made an outsized contribution to higher turnover rates in Canada's domestic bond market. Granted, a simple turnover ratio is but one means of gauging liquidity and we're careful not to overplay things. But line reported volumes up with monthly outstandings up and you'll see that even as underlying liquidity is meant to be drained via Quantitative Tightening, more GoC debt is actively changing hands (Chart 4). That's evident in the money market and each major GoC bond maturity bucket (<3Y, 3-10Y, >10Y). For the time being then, (bond) turnovers are not to be feared.

Chart 2: ...with YTD trading up big in all major sectors...

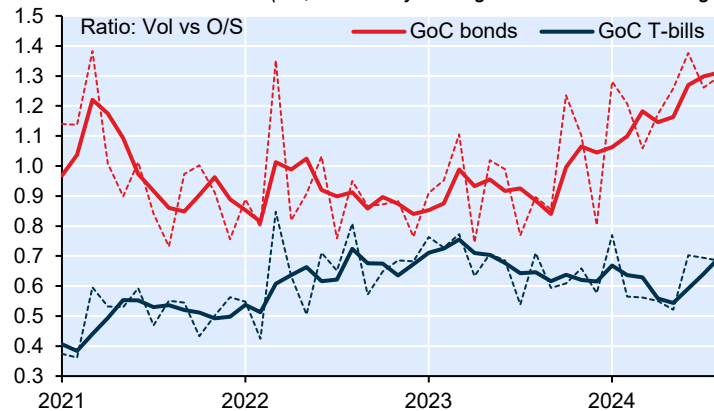
Growth in Canada bond market trading by major sector & select counterparty



Source: NBF, CIRO | Note: YTD growth based on Jan-Aug volumes for 2024 vs. 2023

Chart 4: ...GoC bond turnover (a liquidity proxy) sets new highs

Turnover ratio of GoC debt (i.e., secondary trading volume vs. outstandings)



Source: NBF, CIRO | Note: Heavy/solid lines are 3M mov avg; light/dotted lines are monthly



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