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Provincial funding: Open the gates!

By Warren Lovely

Talk about opening the supply gates; Canadian provincial bond issuers have already launched the equivalent of C$18.6 billion in new term debt in the first handful of days of this still new(ish) year. That includes domestic and international offerings and comes via 14 individual trades from eight unique (direct or explicitly guaranteed) provincial issuers.

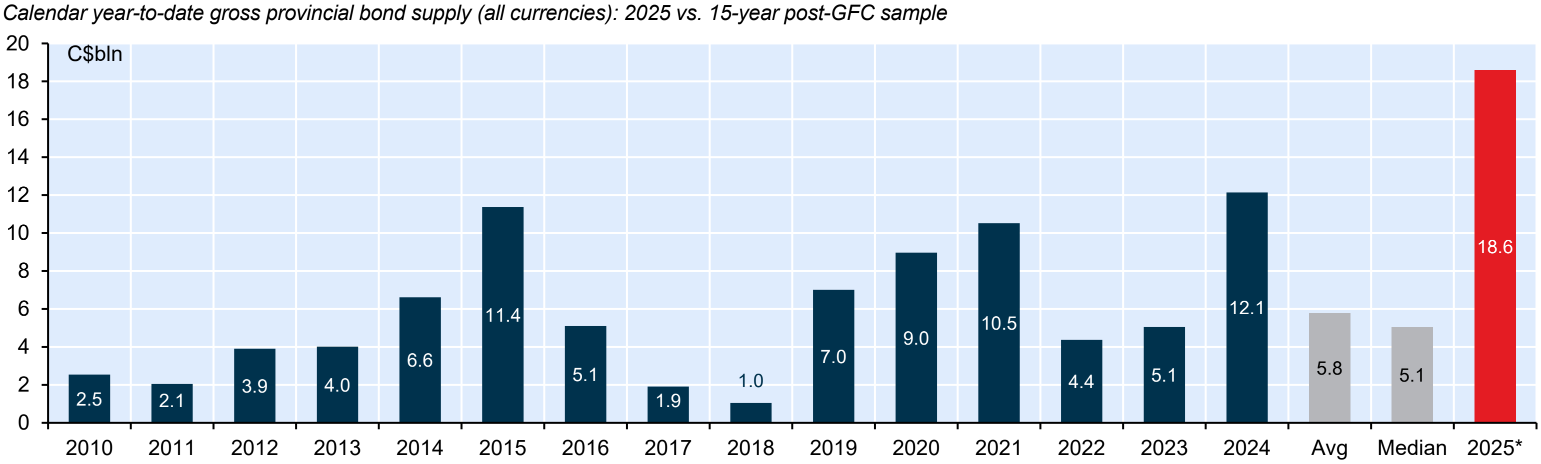
If you're wondering, no, we've never seen such a brisk issuance tempo to start a calendar year. And it's not even close. At the equivalent point of 2024—which as a reminder ended up being a genuinely extraordinary year for provincial supply—we had seen more like C$12 billion in total issuance across all markets. In a so-called 'average' year, combined domestic-international supply would be more like C$6 billion at this early juncture (Chart 1). Put another way, it has normally taken until early March (on average) to get to C$18.6 billion in cumulative issuance. While this is certainly unprecedented stuff, there are at least four good reasons for the observed surge in provi supply:

1. **We're smack dab in the middle of the single-busiest seasonal window for provincial supply.** In the decade and a half since the Global Financial Crisis, no month has tended to be busier than January. Going one step further, no week has topped the third week of January for total provincial issuance. If you really want to dazzle friends at the next 'provi bond trivia night' at your local watering hole, hit 'em with this: The single busiest day for provincial bond supply tends to be January 13th (assuming it's a good biz day of course). The point is, under normal circumstances, it would not be uncommon for provincial issuers to be relatively busy early in the calendar year. But clearly these are not 'normal' times.
2. **Official borrowing needs remain elevated vs. longer-term averages and are likely biased higher.** Based on officially communicated needs, we had backed out a C$120 billion bond requirement for calendar 2025, compared with the ~C$90 billion post-GFC annual average. Notably, official requirements are underpinned by what could become an 'optimistic' growth scenario, should President-elect Trump opt to wield the tariff stick. We don't want to get ahead of ourselves here, but it's appropriate to study the 'downside' economic, fiscal and borrowing scenarios that select Canadian governments provide. We will offer summary analysis in a separate *Market View* but let's just say more borrowing may be needed than what has been formally communicated to this point.
3. **Despite heightened uncertainty, investor demand for credit—at home and abroad—has proven relatively firm/broad/deep.** Nothing pulls issuance into the market than legitimate investor demand. While that holds for all credit markets, provincial issuers are certainly sophisticated/savvy/experienced enough to issue into strength. That's why you will often find little short-term correlation between weekly or monthly provincial bond supply and resulting credit spreads. Granted, the relative issuance tempo from sector to sector (e.g., provincial vs. corporates) or from provincial issuer to provincial issuer has been shown to influence relative valuations.
4. **Most vitally, it's unclear where global trade policy, economic conditions and investor sentiment goes from here, and things could take on an ominous hue quick.** Starting next week, the geopolitical situation (including the normally stable/constructure Canada-U.S. relationship) could get wild, with no little amount of financial turbulence potentially thrown up. Somewhat related to point #3, provincial bond issuers are wise to get ahead of U.S. geopolitical risk. After all, it remains to be seen just how eager global bond investors will be to load up Canadian risk (even highly rated and relatively liquid provincial bonds) should a serious trade war kick off.

Bonus material… A cheaper loonie enhances CAD-equivalent proceeds from international bonds deals. In this way, USD funding has been particularly efficient, as Ontario, British Columbia and now Saskatchewan have demonstrated. And here's a final prospective consideration that might ultimately influence one large province's approach to the market: An early election call in Ontario. Let us be clear, no vote has been called in Ontario. Still, there's been ample speculation, Premier Ford recently suggesting Ontarians should have a say on stimulus spending that could be needed in a trade war. An early vote—were it to come to pass—could encourage Ontario to get more funding on board ahead of time, since all provinces rightly put themselves into a borrowing blackout during electoral campaigns.

Chart 1: What a start! Never before have provincial bond issuers been this active early in the new calendar year

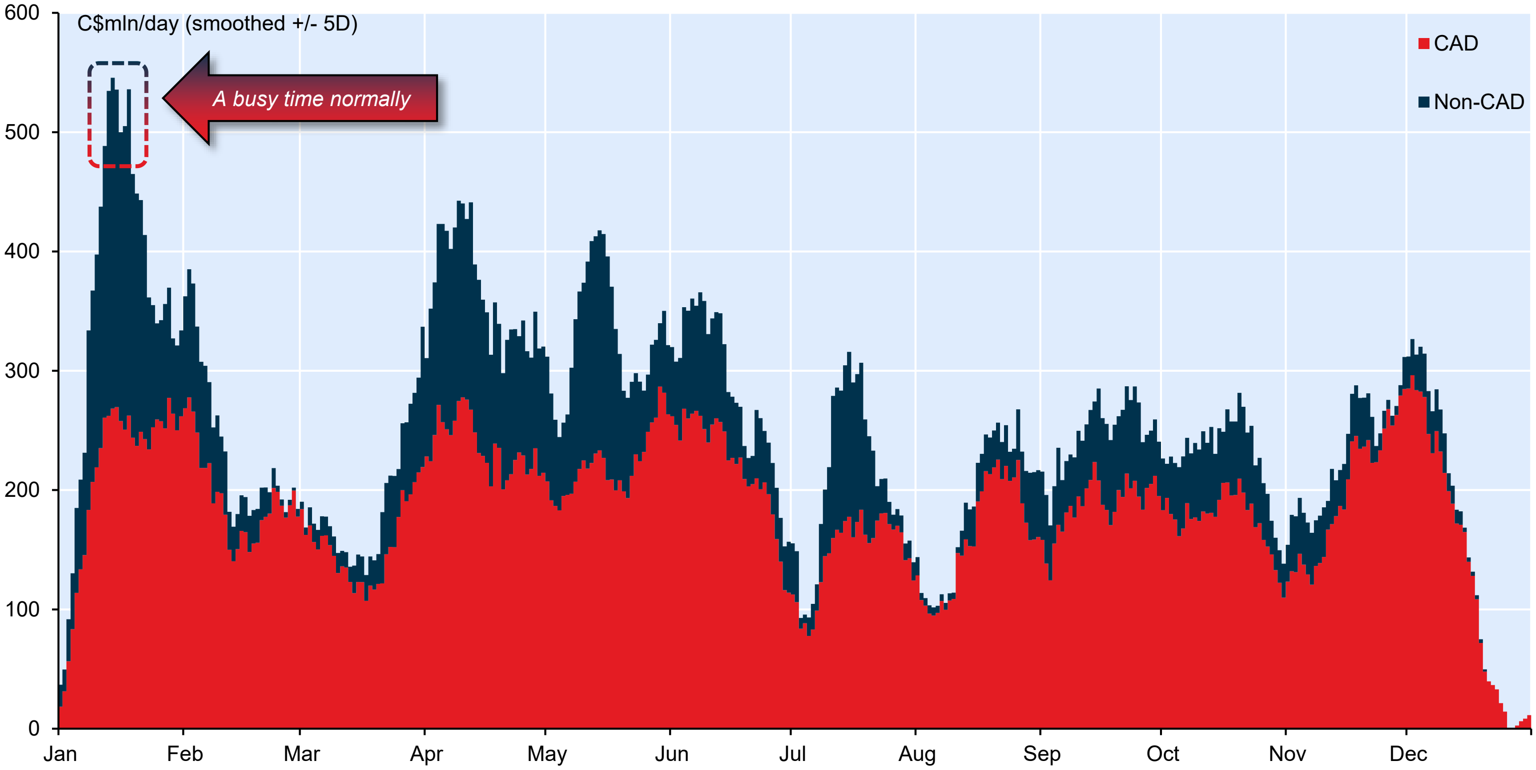
Calendar year-to-date gross provincial bond supply (all currencies): 2025 vs. 15-year post-GFC sample



Source: NBC, BBG | Note: Gross marketable bond issuance in all currencies, based on announcement date; international issuance converted to CAD at prevailing FX rates; for 2010-23, gross proceeds as at 17-Jan; for 2025, C$18.6bln in supply relates to 14 bond deals thus far priced and/or announced, inclusive of BRCOL (CAD) & SCDA (USD) deals launched 16-Jan

Chart 2: Mid-January typically the single busiest issuance window for provincial governments

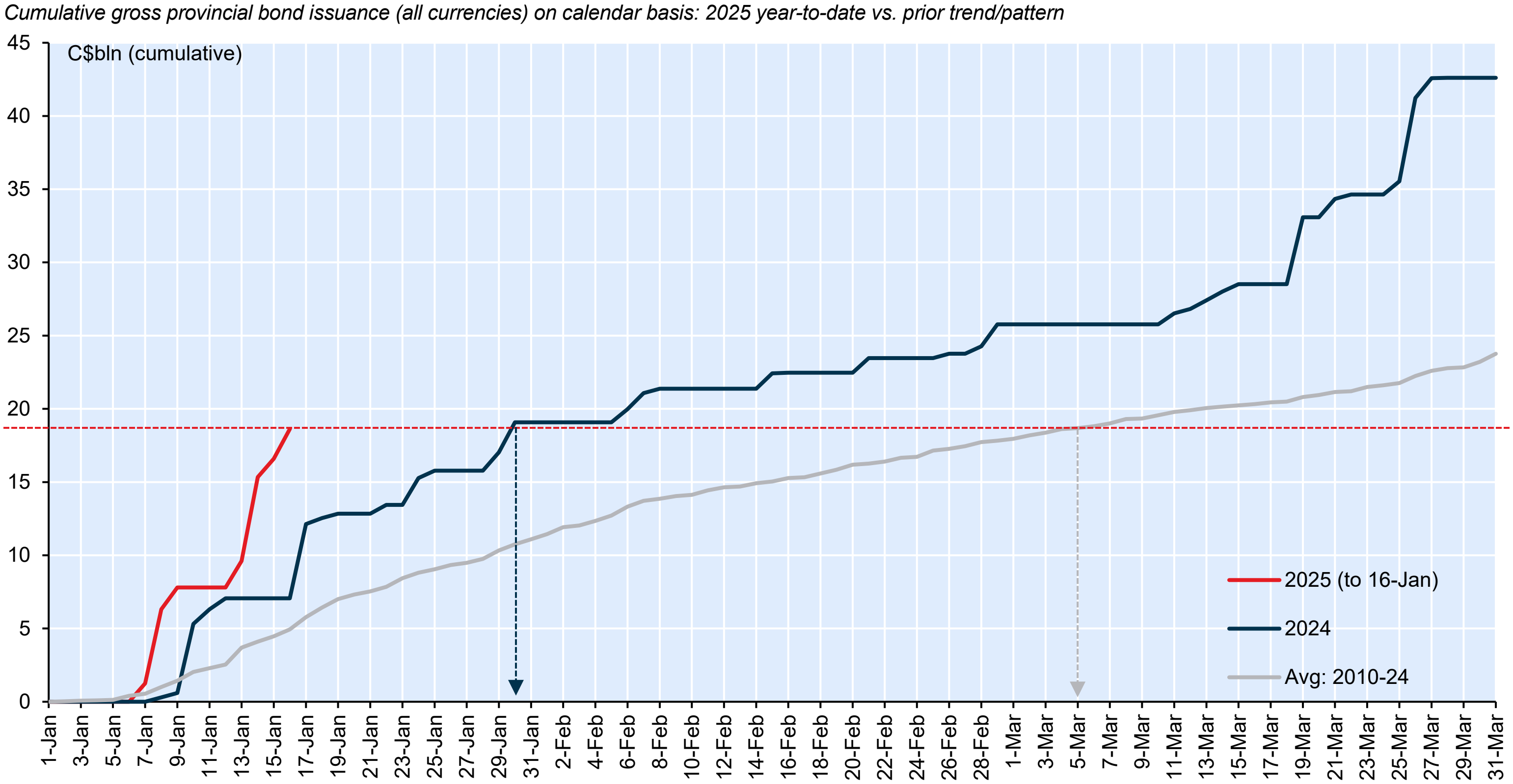
Traditional seasonality in gross provincial bond supply (CAD and non-CAD), based on 15-year sample covering 2010-24



Source: NBC, BBG | Note: Based on >2,400 provincial bond deals from 2010 to 2024 inclusive, where combined proceeds total C$1.37tln; international issuance converted to CAD at prevailing FX rate at time of deal

Chart 3: Seasonals aside, we are far ahead of past issuance 'norms' for good reason(s)

Cumulative gross provincial bond issuance (all currencies) on calendar basis: 2025 year-to-date vs. prior trend/pattern



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