



SUMMARY OF THE DISCUSSION

Toronto, 25 April 2016, 4 p.m. to 6 p.m.

1. Recent Bond Market Developments and Near-Term Outlook

Members reviewed conditions in fixed-income markets since the last CFIF meeting. Significant improvement in overall market conditions was noted, with credit spreads tightening, and equity and commodity prices increasing. The market was described as having returned to a risk-on environment, with fundamentals improving both globally and in Canada, which spurred foreign flows into the Canadian fixed-income market. Fixed-income liquidity, which had improved since the last meeting, was noted as still being affected by reduced dealer market-making capacity (see CFIF, October 2015 Market Liquidity Survey Results), leading to somewhat elevated spread volatility.

Members also noted that relatively poor conditions in the corporate primary market at the beginning of 2016 (longer issuance processes and larger new issuance concessions) had largely unwound with the improvement in market tone. One member described the new issuance environment as having returned to conditions experienced in 2015, but with much lower issuance volumes. Most of the reduction was due to lower issuance from domestic banks, which found it more attractive to issue new debt in foreign markets than domestic markets. Some members thought this trend could continue for the remainder of 2016. Conditions in the public sector primary market were described as relatively healthy, with an increase in demand for frequent issuers. It was noted that investors had reduced interest in private placements and floating-rate notes in favour of more-liquid benchmark issuance.

Members also discussed the potential impact of the recently announced Government of Canada debt program. Members believed the increase in the GoC bond supply would help alleviate some of the ongoing strains in parts of the government bond market. Participants also noted that the focus on the 2-year to 5-year term would not crowd out longer-dated issuance by the provinces.

2. Update on International Developments and Work

The Bank of Canada presented a brief update on ongoing central bank work, coordinated through a working group of the Bank for International Settlements Markets Committee, to develop a global foreign exchange code of conduct. The work is on schedule, with the first phase of the code due to be published at the end of May.

3. Update on Working Group Progress

The working group co-chairs presented members with a proposed draft survey to improve understanding of liquidity, transparency and market access in the Canadian fixed-income market. The survey, which will be sent to fixed-income market participants active in the Canadian market, should allow the CFIF to better identify trends or issues in the market that would benefit from further analysis by the committee. There was broad agreement among members that this would also be a good opportunity to engage a wider range of market participants regarding possible approaches to improve market functioning. The co-chairs agreed to further refine the survey based on member feedback, with an objective of distributing the survey to market participants before the end of May.

4. Canadian Fixed-Income Futures

The Bank of Canada provided an overview of recent trends in the Ten-Year GoC Bond Futures (CGB) market based on data provided by the Montréal Exchange (MX). The Bank noted that bid-ask spreads had converged to the contract minimum and that the overall size of the visible limit-order book had increased and was stable throughout the average trading day. Members believed that the large increase in traded volume was also a reflection of improved market depth. The Bank noted that while the 15 October 2014 flash rally in US Treasuries temporarily affected liquidity in the CGB market, the limit-order book normalized very quickly.

The MX discussed the evolution of the MX futures market and their initiatives to revitalize key yield curve products. They described the mix of firms active in the CGB market, and stated that pension funds, asset managers and commodity-trading advisers accounted for the largest share of CGB open interest. Members noted that there had been an increase in the use of CGB futures to hedge GoC interest rate risk. The MX also noted that the share of longer-dated bankers' acceptances futures (BAX) contracts (reds and greens) had risen to 30 per cent of the total BAX activity. Limited volume in the Five-Year GoC Bond Future (CGF) remained, however, and discussions at the meeting did not lead to any conclusions as to what was driving this lack of activity. The MX highlighted their new Request for Quote technology for less-liquid products and also mentioned that they will [launch an Eris-based Canadian-dollar interest rate futures contract](#) by the end of the year. They will also continue to evaluate the extension of trading hours to 4:30 p.m. or having a 22-hour trading day, as well as the relaunch of the 30-year GoC bond future (LGB).

5. Review of Agenda Items for June Meeting

Discussion topics and agenda items for the June meeting will be finalized based on member feedback. The next CFIF meeting will be held in Toronto on 20 June 2016.

6. List of Attendees

Montréal Exchange (External Presentation)

Alain Miquelon
Joanne Elkaim

Market Representatives

Jean-François Pépin, Addenda Capital
John McArthur, Bank of America Merrill Lynch
Michael Taylor, BlueCrest Capital Management
Chris Beauchemin, British Columbia Investment Management Corporation
Marc Cormier, Caisse de dépôt et placement du Québec
Roger Casgrain, Casgrain & Company
Chris Kalbfleisch, Connor, Clark & Lunn Investment Management
Martin Bellefeuille, Desjardins Securities
Daniel Bergen, Great West Life Assurance Company
Murray Shackleton, Manufacturers Life Insurance Company
Daniel Duggan, National Bank Financial
Jason Chang, Ontario Teachers' Pension Plan
Jim Byrd, RBC Capital Markets
Andrew Branion, Scotiabank
Bradley Pederson, TD Securities

Bank of Canada

Lynn Patterson (Co-chair)
Toni Gravelle (Co-chair)
Grahame Johnson
Paul Chilcott
Harri Vikstedt
Maksym Padalko
Samantha Sohal