2019-20 Debt Management Strategy Consultations

Overview

The Department of Finance and the Bank of Canada are seeking the views of government securities distributors, institutional investors, and other interested parties on issues related to the design and operation of the Government of Canada's domestic debt program for fiscal year 2019–20 and beyond. Regular consultations with market participants are an integral and valued part of the debt management process and all market participants are encouraged to provide input.

To guide feedback, this document sets out questions on the Government of Canada treasury bill and bond programs, issuance stability, and well-functioning markets.

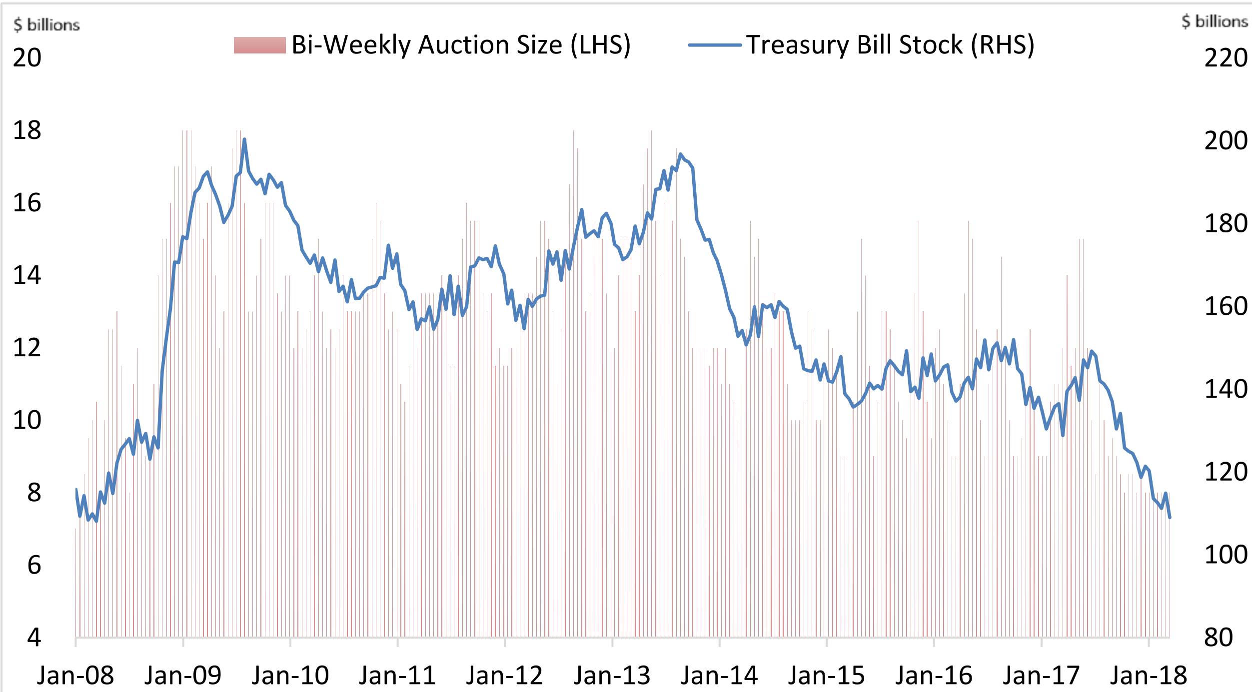
Context

The fundamental objectives of debt management are to raise stable and low-cost funding to meet the financial needs of the Government of Canada and to maintain a well-functioning market for Government of Canada securities. Achieving stable, low-cost funding involves striking a balance between the cost and risk associated with the debt structure as funding needs change and market conditions vary. Having access to a well-functioning government securities market ensures that funds can be raised efficiently over time to meet the Government's needs. Moreover, to support a liquid and well-functioning market for Government of Canada securities, the Government strives to promote transparency and consistency.

The Government's debt structure is informed in part by its medium-term debt strategy, which aims to balance cost-risk trade-offs over time while supporting well-functioning markets in core sectors. The debt structure is also informed by input received from market participants during consultations. The Government's borrowing needs and issuance strategy for 2019-20 have not been determined yet, but will be communicated in the *Debt Management Strategy for 2019-20*, which will be published in the 2019 Budget.

In 2017-18, a confluence of factors led to significantly lower borrowing requirements than were planned in the *Debt Management Strategy for 2017-18*. In response to decreased borrowing requirements, bi-weekly treasury bill auction sizes were reduced and the outstanding stock of treasury bills declined steadily throughout 2017-18 (Chart 1). The bond program was adjusted mid-year to support higher treasury bill issuances, including decreased bond auction sizes in the 2- and 5-year sectors and the removal of an auction in the 3-year sector.

Chart 1. Historical Treasury Bill Stock and Auction Size



Source: Bank of Canada

Note: Excludes cash management bills

Within this context, feedback received through these consultations will help federal debt managers design a debt strategy for 2019–20 that will continue to strike a prudent balance between cost and risk, and to strive to maintain a liquid, well-functioning Government of Canada securities market.

Treasury Bills

Based on the current *Debt Management Strategy* the stock of treasury bills is projected to be $138 billion by the end of the fiscal year 2018-19. Bi-weekly issuance of 3-, 6-, and 12-month maturities will continue with auction sizes projected to be in the $8 billion to $14 billion range. Cash management bills and Cash Management Bond Buybacks will continue to be used to help manage the Government's cash in an efficient manner.

1. Please describe how the primary and secondary markets for Government of Canada treasury bills have been functioning this year and relative to previous years. Please comment on the size of individual auctions as well as liquidity, trading, and investor behaviour.
2. What is your sense of an appropriate range for the amount of treasury bills outstanding and the appropriate size of treasury bills auctions that would support primary and secondary market functioning?
3. Should the treasury bill auction amount allocation between 3-month, 6-month, and 12-month sectors be adjusted?

Bonds

As indicated in the *Debt Management Strategy for 2018-19*, $115 billion in gross issuance of domestic marketable bonds is planned for 2018-19. After considering scheduled maturities and planned debt repurchases, a forecasted $598 billion stock of Government of Canada bonds outstanding is expected by the end of this fiscal year. The bond issuance pattern for 2018-19 has a total of eight maturity dates (Table 1).

Table 1: Maturity Date Patterns and Benchmark Bond Size Ranges per Sector for 2018–19 †

Tenor	Current Target (C$bln)	Maturity Dates	Number of Auctions[3]
2-year	10-16	Feb, May, Aug, Nov	16
3-year[1]	4-9	Mar, Sep	6
5-year	11-17	Mar, Sep	8
10-year	10-16	Jun	5
30-year	10-16	Dec	3
RRB	10-16	Dec[2]	4

† 50-year bond issuance remains subject to favourable market conditions. There are currently no plans to set up regular issuance of ultra-long bonds.
[1] The 3-year sector is a reopening of old 5-year benchmarks.
[2] Benchmark size ranges for Real Return Bonds include an estimate for inflation adjustment. The 30-year nominal bond and Real Return Bond typically do not mature in the same year.
[3] The actual number of auctions that occur may be different than the planned number of auctions due to unexpected changes in borrowing requirements.

4. How have the primary and secondary markets for Government of Canada bonds been functioning this year and relative to previous years? Please comment on the size of individual auctions and target benchmark sizes across the maturity spectrum, as well as liquidity, trading, and investor behaviour.
5. The Government currently issues in three long-dated sectors: 10-year nominal, 30-year nominal, and 30-year Real Return bonds. Should the Government consider reallocating issuance amounts across these long-dated sectors?
6. What were the impacts of reduced bond auction sizes mid-year and removal of an auction in the 3-year sector?

Issuance Stability

The Government's debt issuance decisions are guided by its core principles of being a regular, transparent, and prudent issuer and the treasury bill program is typically used to adjust to intra-year fluctuations in cash flow while maintaining stable bond issuances. However, significantly lower-than-expected financial requirements required a number of adjustments to bond and bill issuance over the past two years, which had implications for issuance stability.

7. Would you recommend more or less stability in the Government's debt issuance program moving forward? What changes would you like to see and what would be the main benefits and potential downsides of those changes?
8. Would you recommend any changes to bond buyback operations, including switch buybacks, cash management bond buybacks, or a reintroduction of cash buybacks, to support issuance stability?

Well-Functioning Markets

Market participants were last consulted in 2010 on the theoretical minimum issuance limits across bond sectors. While these theoretical minimum issuance levels are not indicative of the Government's planned issuance activity, they are useful for understanding the requirements for maintaining well-functioning markets. Table 2 presents the theoretical minimum issuance limits last presented to market participants.

Table 2. Theoretical Minimum Issuance Limits*

	Minimum Benchmark Size	Minimum Number of Benchmarks per Year	Minimum Annual Issuance
2-year	$7B	2	$14B
3-year	0	0	0
5-year	$9B	1	$9B
10-year	$10B	1	$10B
30-year	$11.2B	1/4	$2.8B
RRB	$5.5B	1/4	$1.4B

* Slight adjustments from the 2010 consultation are presented here for the theoretical minimum issuance limits in 3-year bonds (to account for fungibility with 5-year bonds) and in 30-year bonds (to reflect switch buyback issuance).

9. Are the theoretical minimum benchmark sizes, minimum number of benchmarks per year, and minimum annual issuance amounts presented in Table 2 still appropriate to ensure well-functioning markets? Since the number of benchmarks in the 2- and 5-year sectors has doubled, are the minimum annual issuance amounts still appropriate?

10. What are your views on the minimum auction size and frequency across sectors?

BOND PORTFOLIO

Term to Maturity (years)	Coupon	Maturity	Issuance Sector	Outstanding Net of Repurchased (CAD Millions)	Repurchased (CAD Millions)
Nominal Bond					
0.0	1.25%	Sep 2018	2Y	7,817	7,783
0.2	0.5%	Nov 2018	2Y	8,760	6,840
0.4	0.5%	Feb 2019	2Y	7,940	7,660
0.5	1.75%	Mar 2019	5Y	7,992	2,208
0.7	0.75%	May 2019	2Y	13,339	2,261
0.8	3.75%	Jun 2019	10Y	13,206	4,444
0.9	0.75%	Aug 2019	2Y	12,030	3,570
1.0	1.75%	Sep 2019	3Y	12,877	3,823
1.2	1.25%	Nov 2019	2Y	15,168	433
1.4	1.25%	Feb 2020	2Y	13,725	675
1.5	1.5%	Mar 2020	3Y	23,200	0
1.7	1.75%	May 2020	2Y	12,600	0
1.8	3.5%	Jun 2020	10Y	13,100	0
1.9	1.75%	Aug 2020	2Y	12,000	0
2.0	0.75%	Sep 2020	3Y	26,000	0
2.2	2%	Nov 2020	2Y	6,000	0
2.5	0.75%	Mar 2021	3Y	25,500	0
2.5	10.5%	Mar 2021	30Y	567	1,233
2.8	9.75%	Jun 2021	30Y	286	4,364
2.8	3.25%	Jun 2021	10Y	11,500	0
3.0	0.75%	Sep 2021	3Y	17,200	0
3.5	0.5%	Mar 2022	5Y	15,000	0
3.8	9.25%	Jun 2022	30Y	206	2,344
3.8	2.75%	Jun 2022	10Y	12,700	0
4.0	1%	Sep 2022	5Y	15,600	0
4.5	1.75%	Mar 2023	5Y	15,000	0
4.8	8%	Jun 2023	30Y	2,359	5,841
4.8	1.5%	Jun 2023	10Y	14,200	0
5.0	2%	Sep 2023	5Y	12,000	0
5.8	2.5%	Jun 2024	10Y	13,800	0
6.8	9%	Jun 2025	30Y	2,303	6,597
6.8	2.25%	Jun 2025	10Y	13,100	0
7.8	1.5%	Jun 2026	10Y	13,500	0
8.8	8%	Jun 2027	30Y	4,036	5,564
8.8	1%	Jun 2027	10Y	15,000	0
9.8	2%	Jun 2028	10Y	13,500	0
10.8	5.75%	Jun 2029	30Y	10,883	3,017
10.8	2.25%	Jun 2029	10Y	3,000	0
14.8	5.75%	Jun 2033	30Y	12,339	1,071
18.8	5%	Jun 2037	30Y	12,631	1,368
22.8	4%	Jun 2041	30Y	15,174	626
27.3	3.5%	Dec 2045	30Y	16,400	0
30.3	2.75%	Dec 2048	30Y	14,900	0
33.3	2%	Dec 2051	30Y	3,500	0
46.3	2.75%	Dec 2064	50Y	4,750	0
Real Return Bond					
3.3	4.25%	Dec 2021	RRB	5,175	0
8.3	4.25%	Dec 2026	RRB	5,250	0
13.3	4%	Dec 2031	RRB	5,800	0
18.3	3%	Dec 2036	RRB	5,850	0
23.3	2%	Dec 2041	RRB	6,550	0
26.3	1.5%	Dec 2044	RRB	7,700	0
29.3	1.25%	Dec 2047	RRB	7,700	0
32.3	0.5%	Dec 2050	RRB	2,900	0

Benchmark **Building to Benchmark**

**Source: Bank of Canada as of 31 Aug 2018*
**RRB numbers do not include inflation adjustment*