Fall 2020 Debt Management Strategy Consultations Summary

Summary of Comments

Regular consultations with market participants are an essential component of the Government's ongoing commitment to a well-functioning Government of Canada securities market and an integral part of the debt management process, especially in the context of the current COVID-19 pandemic.

In September and October 2020, the Department of Finance and the Bank of Canada held over 30 bilateral virtual meetings and received written comments from dealers, investors and other relevant market participants. These consultations sought the views of market participants on issues related to the design and operation of the Government of Canada's domestic debt program for 2020–21, as can be found at the following link.

The Department of Finance and the Bank of Canada value the comments provided by market participants. The comments received during the consultation period, which are summarized below, will be taken into consideration as we adjust the debt management strategy in the future.

Higher Planned Issuance for 2020-21

Market participants indicated that the market is working remarkably well following initial market stresses experienced at the onset of the COVID-19 pandemic through March and April 2020. Participants highlighted that changes to the debt program and the Bank of Canada's various financial market support programs were responsive, transparent and clearly communicated, and that these attributes were paramount in successfully stabilising financial markets and allowing for a record amount of federal government debt to be absorbed.

Long-Term Bonds

Market participants indicated that the Bank of Canada's Government Bond Purchase Program (GBPP) was the key factor in raising the unprecedented amount of long-term federal government debt in an orderly manner, since the GBPP absorbed a significant portion of the extra issuance. In the context of potential additional debt issuance moving forward, a broad consensus supported continued issuance in the 10- and 30-year sectors versus introducing new sectors (i.e., 7-year, 15-year, 20-year, or 50-year and longer). A number of market participants indicated that the 10-year sector could readily absorb more net issuance since the sector benefits from a liquid and well-developed futures markets (CGBs). Issuance in the 30-year sector could also be increased but not without putting some pressure on yields.

In a scenario where new sectors were required, markets participants' preferences were split relatively evenly between a 7-year bond and a 20-year bond. These views were somewhat diverse depending on participants' own issuance strategies, in addition to trading volumes and links to other bond sectors (e.g., provincial, municipal or corporate bonds). The 7-year bond could create a liquid point between the 5- and 10-year bonds, while the 20-year bond could create some trading opportunities with the newly introduced US 20-year bond.

For Ultra-Long Bonds (ULBs), a clear majority of participants, including typical long-bond investors, do not recommend 50-year or 100-year bonds at this stage. These investors indicated limited demand for these very long instruments mainly due to low yields. More importantly, they do not require such long-term instruments to manage their liabilities, given other asset-liability management strategies and generally declining need for duration.

As such, if new sectors or alternative debt instruments are required, market participants reinforce that they prefer they be permanent issuance sectors. Although, again, there was strong consensus to avoid opening a new sector.

As for potential crowding-out effects on provinces' and municipalities' long bond issuances, most market participants expressed only modest to no concerns since provinces' and municipalities' long-term instruments are considered different enough from their federal analogues.

Bond Operational Considerations

In general, market participants indicated that operational changes to the existing sectors (3-year, 10-year and RRBs) were well received. Most participants also signaled that the market is flexible and could adapt to new issuance dates (such as 15th of the month) if deemed necessary – though some flagged concerns about potential adverse price dynamics given less than favorable conditions for these dates. As such, current issuance dates are preferable as alternative issuance dates could lead to some auction concession, in addition to some liquidity and operational issues.

Market participants indicated a preference for auctions to be limited to one bond per day even if it implies having larger auctions on current auction days or conducting auctions on other weekdays. However, if further auctions are needed, market participants favor two bond auctions with different terms be issued at different times of the day rather than simultaneously.

Treasury Bills

Treasury bills are currently in high demand due to excess cash in the financial markets, both from domestic and international investors. There is ample room to increase bill issuance as evidenced by yields remaining well below the overnight rate.

Some indicated that if auction sizes were to fall below the $10 billion weekly level consistently, moving back to bi-weekly auctions would be preferable. Market participants prefer that the Government minimizes the number of changes and advise switching to bi-weekly auctions only if the Government intends to make that change for the long term.

Market participants support the current allocation between the 3-month, 6-month and 12-month treasury bills, although a number of participants highlighted stronger demand for the 3-month tranche.

Green Bonds and Other

Most dealers showed enthusiasm at potential green bond issuance by the federal government, citing the high demand from global investors with green mandates, which they argued could potentially be issued at similar or potentially cheaper cost of funds than conventional instruments (i.e., Greenium).

On the other hand, most issuers raised the challenges of issuing green bonds, which include in most cases lower prices at auctions, syndication fees and significant resources to monitor and report on the associated green investments. Liquidity was also mentioned as an issue, but is improving. Issuers are supportive of green initiatives but indicated that green projects could easily be funded by issuing regular more liquid debt instruments. Issuers also indicated that the federal government issuing a green bond would not increase their issuances of green bonds, and that there is a potential for crowding out.

On communication aspects, market participants appreciated the regular and transparent communications provided by the Department of Finance and the Bank of Canada as it has been helpful in stabilizing financial markets.