

CAPITAL
THAT
WORKS

CFIF - Recent Market Developments

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Key Takeaways

R A T E S

- Economic recovery fueled future inflation concerns combined with more commitments to “lower for longer” rates policy has left the yield curve at its steepest point in years.
- Trade liquidity measures such as Bid/Offer spreads were stretched at the height of the COVID crisis (March to May 2020), but became normalized as the autumn arrived. Ticket inquiries of 50mm 10yr equivalent have reverted back to within 5 cents bid/offer, from a crisis wide of more than 10 cents.

P R O V I N C I A L S

- Spreads sit at very tight levels. Current risk premiums are back to and even through pre-COVID levels. In many situations, we are at/near the tightest in over a decade.
- High new issuance volume remains well absorbed as investors have proved to be tolerant of elevated government spending following the pandemic.
- Bid-Ask spread in long ONT was highest in March/April '20 at ~1.5bp and later came back to +0.5bps by July. Today we often see locked markets in multiple short tenors.

S W A P S

- The most acute months in terms of market dysfunction in the swaps market were March through May of 2020 during which bid/offer spreads widened out up to 5X vs. normal conditions.
- Liquidity in the swap market gradually retraced toward “normal” in the months following and have now completely reverted to pre crisis levels.

V O L

- Implied vols in USD and CAD spiked to levels not seen since the 2013 taper tantrum, around 2/3 of those observed in the GFC
- During 2H20 the market's implied vol remained higher than the vol that was delivered.
- Over the last few months the move in rates, (realized Vol) has caught up with implied Vol as “implies” have not moved significantly.
- The pattern in USD and CAD is not materially different, apart from the fact that implied vols in CAD remained higher than realized when compared to USD for the period since COVID.

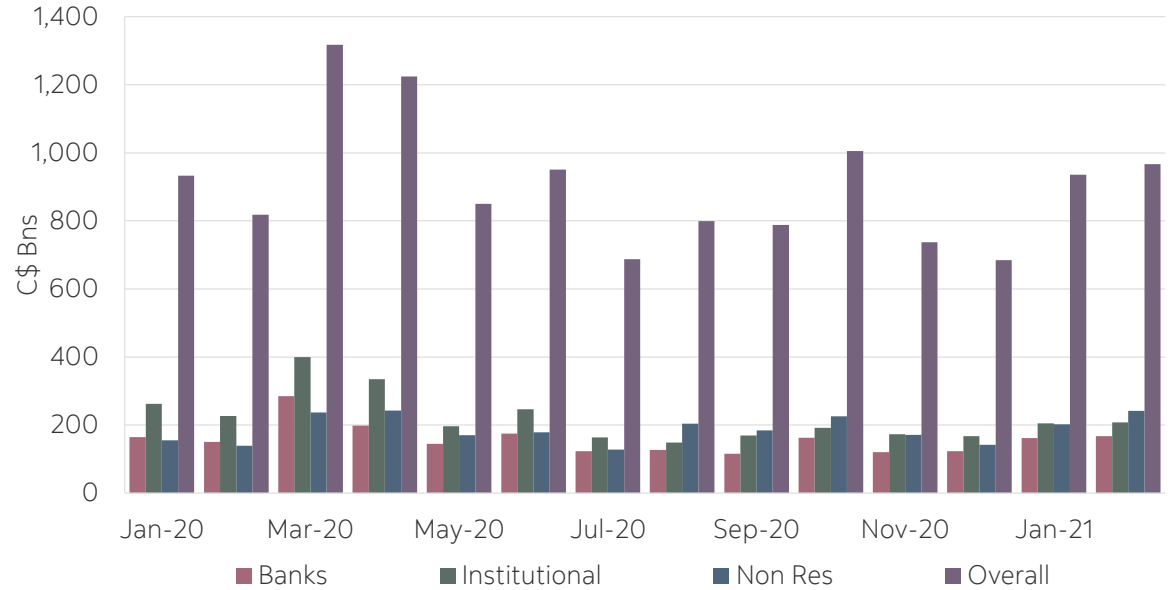
Rates Update

Canada Yields and Ontario Spreads LTM
03/01/2020-03/01/2021 - (source : Bloomberg)

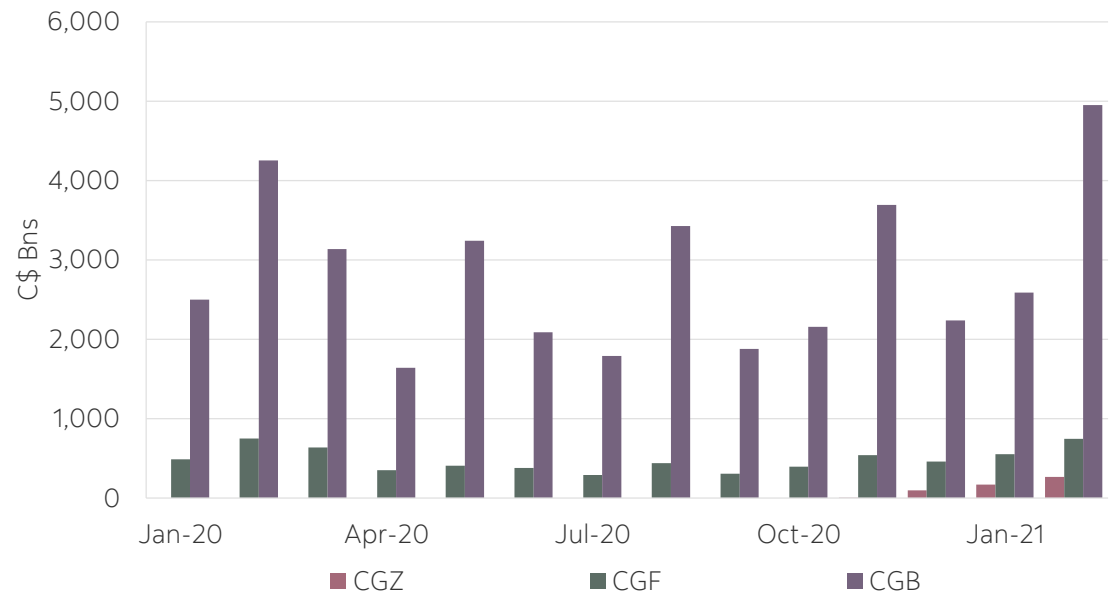


Canadas

IIROC Secondary Trading Monthly Volumes - (source : IIROC)

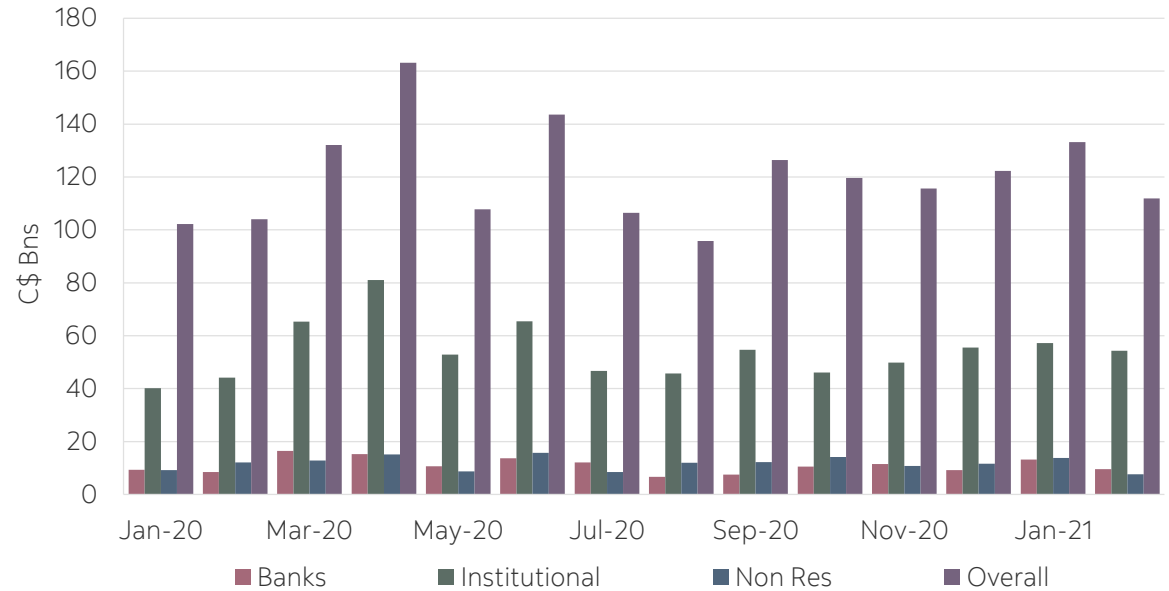


Canada Bond Futures Monthly Volumes - (source : TMX)

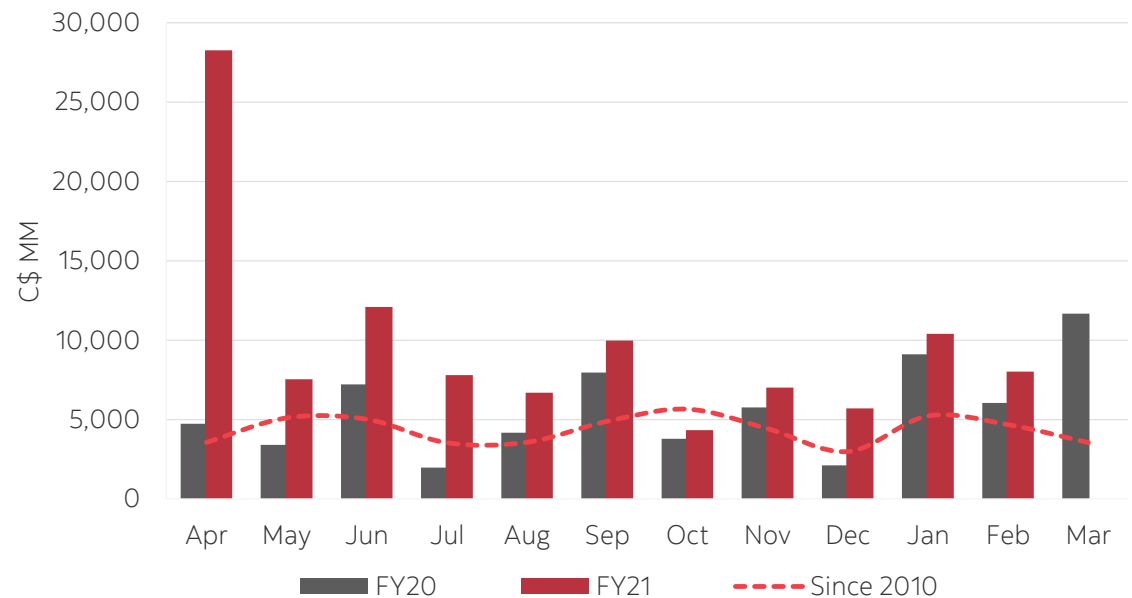


Provincials

IIROC Secondary Trading Monthly Volumes – (source: IIROC)

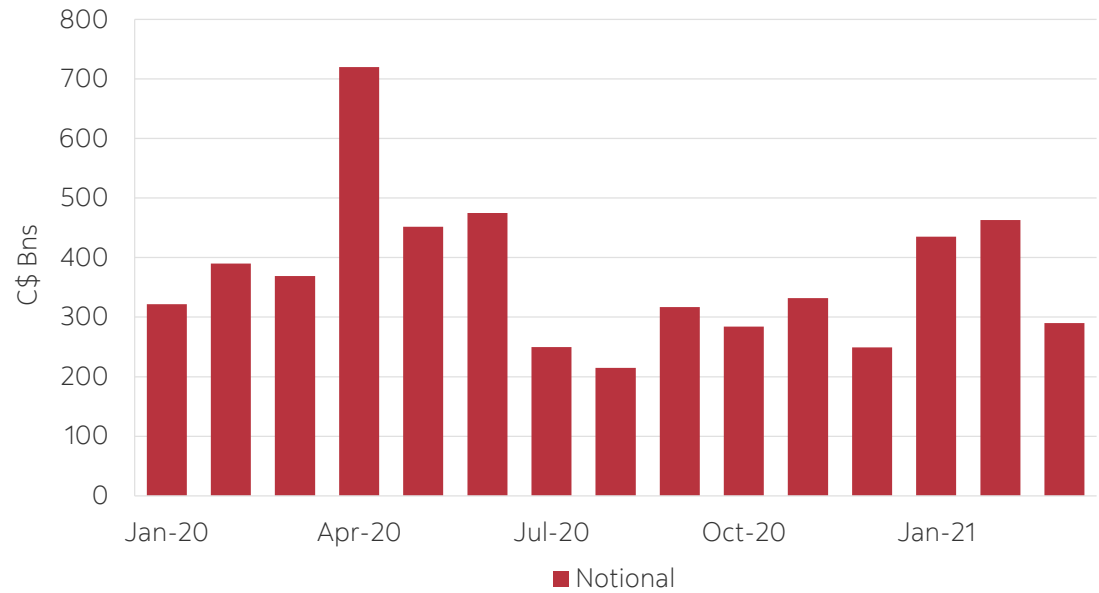


New Issue Supply – (source: Scotiabank)



Swaps

CAD Single Currency IRS – (source : Bloomberg SDR)



Volatility

(source : Scotiabank)

CAD



USD

