



## SUMMARY OF THE DISCUSSION

Toronto, November 19, 2024, 4:00 p.m. to 6:00 p.m.

### **1. Introduction**

The co-chairs welcomed Pablo Suarez, Head of Markets Treasury, Citi Canada to the Canadian Fixed Income Forum. The co-chairs also informed members that this will be Eugene Lundrigan's last CFIF meeting. The co-chairs expressed their gratitude for Mr. Lundrigan's contributions to the group.

### **2. Recent bond market developments<sup>1</sup>**

CFIF was joined by Jabaz Mathai, Head of G10 Rates and FX Strategy, Citi, and Doug Porter, Chief Economist and Managing Director, BMO for a discussion on the impact of the US election on markets and the US and Canadian economies.

Mr. Mathai noted that the US election has resulted in a clear outcome quicker than expected given the close polling. The market reaction to the Trump victory and likely Republican sweep in both the Senate and House has been generally in line with consensus market expectations, with 10-year US Treasury yields, US dollar and equities all moving up after the election. The potential impact on the US fiscal deficit remained the focus of market narratives. He noted that historically speaking, the budget deficit and Treasury supply typically do not have persistent impact on the US bond market as participants are continuously weighing economic data and monetary policy actions against longer term deficit considerations. According to the speaker, risk premium associated with fiscal worries tend to appear in swap spreads. For instance, he noted that the 30-year swap spread<sup>2</sup> is currently around -80 bps, meaning that the government is paying about 80 bps premium to issue 30-year bonds. On expected monetary policy rate path, Mr. Mathai expects the Federal Reserves will continue to reduce policy rates, which can reach 3% in 2025.

The US election results did not alter Mr. Porter's base case forecast for Canadian inflation, and he predicts growth in Canada will continue to pick up as the burden of high interest rates continued to be lifted and growth will be close to the long-run average next year. Although tariffs remain the biggest risk to his forecast, Mr. Porter commented that the health of the US economy may still be more important as Canada's economy was able to achieve above trend growth during the last Trump administration when tariffs were imposed on Canadian exports. He expects the Bank of Canada will continue to lower the overnight target rate, which will reach 2.5% by middle of next year.

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<sup>1</sup> The discussion took place before the Federal government's announcement of GST/HST tax relief and rebates and the US tariff threats to Canada.

<sup>2</sup> Swap spread is the difference between the fixed interest rate of a swap and the yield on a government bond of the same maturity.

Both speakers agreed that tariffs will have dampening effects on the US economy and are generally inflationary. Mr. Porter commented that the impact on inflation is less certain as an appreciation of the US dollar can offset the impact of tariffs on consumer prices in the US. Mr. Mathai noted that the sequencing of tariffs and the timing of potential deportations are also important as they will result in different inflation outcomes and may slowdown the pace of rate cuts from the Federal Reserve.

The speakers also shared their views on oil prices and the exchange rate. Mr. Porter expects oil prices to be slightly higher in 2025 but acknowledged that there are downside risks to his base case assumption. Mr. Mathai noted that weaker than expect demand from China can bring oil prices down in 2025.

On exchange rate, both speakers agreed that the US election result is positive for the US dollar. Mr. Porter added that currency markets tend to overshoot, and the relatively better Canadian fiscal outlook may provide some support for the Canadian dollar in the medium term.

### **3. Update from the TMPG**

The chair of the Treasury Market Practices Group (TMPG) Casey Spezzano and New York Fed Ex Officio TMPG member Ellen Correia Golay gave an overview of the structure of the group and outlined TMPG's notable accomplishments.

The speakers also shared TMPG's current priorities. The Non-Centrally Cleared Bilateral Repo (NCCBR) Working Group, established in 2023, is in the process of drafting a white paper focusing on reviewing margining practices across different repo segments. A draft has been circulated to TMPG for feedback and [discussion](#). The recently created Operational Resiliency Working Group is evaluating TMPG's existing [best practice](#) recommendations related to internal controls and risk management around key service providers, critical venues and clearing and setting services. The work is in response to challenges posted by recent cyber security events and operational disruptions.

The speakers noted that the expansion of central clearing in the US Treasury Market will be a key focus for TMPG in 2025. In December 2023, the SEC voted to significantly expand central clearing in the Treasury market. Implementation of the SEC's [rule](#) will move the vast majority of repo, and reverse repo as well as cash Treasury trades conducted through interdealer brokers into central clearing. There are several [considerations](#) that still need to be finalised around how central clearing will be implemented in the US Treasury market. They include client clearing access models, margin practices and prospects for additional CCPs.

Cash Treasury clearing is required to occur by year-end 2025 and repo clearing is required to occur by mid-2026. The TMPG will continue to monitor the non-centrally cleared segment of the Treasury cash and repo market during this transition, with a focus on repo risk management practices.

### **4. Bank of Canada balance sheet normalization**

A representative from the Bank of Canada (Bank) presented potential future purchase methods for Government of Canada (GoC) bonds as the Bank continues its path towards [balance sheet normalization](#). He noted that as quantitative tightening (QT) eventually ends, the Bank will need to restart asset purchases to manage its balance sheet. Prior to 2020, the Bank only used primary purchases to acquire

GoC securities for its balance sheet. The pause in asset purchases since April 2022 presents an opportunity to re-evaluate the Bank's purchase method for GoC bonds and the Bank was seeking feedback from CFIF members on potential methods as part of its market outreach.<sup>3</sup>

During the meeting, no material issues or concerns were raised regarding using either primary or secondary purchases to buy the required amount of bonds for the Bank's balance sheet needs.<sup>4</sup> A preference for the secondary method emerged, as CFIF members felt it would create liquidity windows for participants to manage their off-the-run Government of Canada bond holdings.

Questions were raised about the timing of when secondary market purchases would take place and the potential impact that this might have on issuance windows for other issuers. Bank representatives explained the intent is to schedule purchase operations around existing GoC bond auctions and in the same sector to help facilitate the management by market participants of GoC exposures. The Bank would also announce operational details, including dates and tenor well in advance. CFIF members were supportive of this approach.

Several CFIF members suggested skewing purchases away from the long-term segments of the GoC yield curve due to limited supply and concentrated issuance in these sectors. There were also discussions on the potential limits on the maximum percentage of a GoC bond that the Bank could purchase at these operations without impairing the secondary market liquidity.

## **5. Sustainable Finance Virtual Network update**

The co-chair of the Sustainable Finance Virtual Network (SFVN) provided a high-level summary of the group's work in 2024. The co-chair noted that SFVN has shifted its focus towards information sharing and industry engagement<sup>5</sup> as some of the official sector related work has slowed down.

The chair of the Stakeholder Committee, a subgroup of SFVN, mentioned that they have been engaging non-profit institutions to improve information flow and standardization in sustainable finance. An example of such effort is the ESG grading report initiative by the C.D. Howe Institute and Queen's University Institute of Sustainable Finance (ISF).

SFVN will continue its work towards mobilising the industry to support the transition towards a sustainable economy.

## **6. Other business**

To help with market functioning and liquidity on days when the Canadian bond market closes early at 1pm ET, a member proposed that CanDeal should keep their trading platform open until 1:30pm ET instead of the current 1pm ET close. This would align CanDeal's close with that of Canadian bond futures and help support liquidity on those shortened days. It is also consistent with the current practice during regular

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<sup>3</sup> The Bank has already sought feedback from GoC Primary Dealers on potential purchase methods after QT ends.

<sup>4</sup> Several members note that treasury bill purchases should be conducted through primary purchase only given its different market structure.

<sup>5</sup> For instance, the group has developed an engagement letter template to encourage companies to disclose their ESG risks and opportunities, if not already publicly available and disclosed.

market trading days. CFIF members supported the proposal and asked the CFIF Secretariat to work on the next steps to take this proposal forward.

The CFIF co-chair noted that the [CORRA Advisory Group's](#) (CAG) membership has been expanded and that it will become a subgroup of CFIF going forward since CARR has been wound down following the successful transitioning of the Canadian financial system from CDOR. CAG is responsible for advising the Bank on CORRA related matters, including any changes to its calculation methodology. The group recently met on November 18 under its expanded membership. CAG members were asked to provide feedback on [additional CORRA transparency metrics](#), which are expected to begin to be published in Q1 2025.

**Meeting participants:****CFIF members:**

Jim Byrd, RBC Capital Markets, Co-Chair  
Brian D'Costa, Algonquin Capital  
Nick Chan, BMO Capital Markets  
Roger Casgrain, Casgrain & Company Limited  
Karl Wildi, CIBC World Markets  
Pablo Suarez, Citi Canada  
TJ Sutter, Connor, Clark & Lunn Investment Management  
Bronwyn Ward, CPP Investment Board  
Philippe Ouellette, Fiera Capital  
Vinayak Seshasayee, PIMCO  
Jason Lewis, Ministry of Finance, Province of British Columbia  
Elaine Lindhorst, TD Asset Management  
Eugene Lundrigan, SLC Management

**External participants:**

Casey Spezzano, Head of US Customer Sales & Trading, Natwest, TMPG Chair  
Ellen Correia Golay, Treasury Markets Advisor, FRBNY

**Item 2**

Jabaz Mathai, Head of G10 Rates and FX Strategy, Citi  
Doug Porter, Chief Economist and Managing Director, BMO

**Bank of Canada:**

Toni Gravelle, Co-Chair  
Wendy Chan, Secretariat  
Sheryl King  
Philippe Muller  
Harri Vikstedt