

### Holding pattern [of Canadian debt securities]

By Warren Lovely & Taylor Schleich

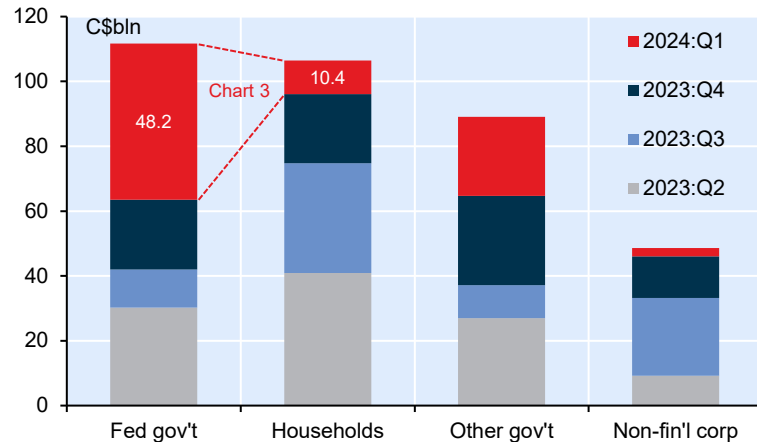
Ask a frequent flyer and they're apt to tell you a 'holding pattern' is a period of little to no progress; the equivalent of going in circles or flying nowhere fast. But there's another 'holding pattern' we tend to key on, related to the ownership (or holding) of Canadian debt. And here, the recent trend (or pattern) has been anything but static.

Leveraging a collection of recent data (i.e., economic accounts, national balance sheet/financial flows, international transactions/investment positions, government finance statistics, BoC assets and liabilities) this *Market View* puts the stock and flow of Canadian debt context. We isolate where fresh debt is coming from and how/where/by whom related securities are being absorbed. There's a particular focus on the one sector/issuer demanding more funding than any other of late: the Government of Canada (GoC).

A collection of domestic investors are increasing their holdings of GoC debt, helping to balance a well-supplied market. We're thinking of our banks, trustee pension funds, insurers, and mutual funds,

#### Chart 1: Feds outborrow other sectors, incl. households...

Net demand for funds: Cdn non-financial sectors (latest 4Q)

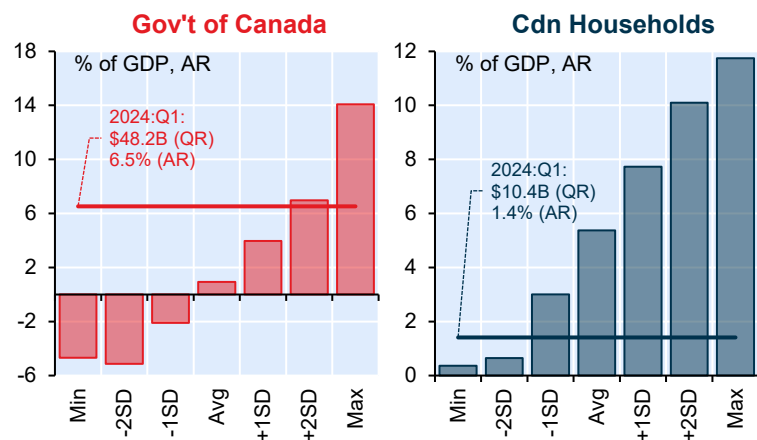


Source: NBF, StatCan | Note: Non-fin'l corp includes GBEs

Propelled by some special factors, the federal government borrowed an outsized \$48 billion in 2024:Q1 alone. On an annualized basis, that's equivalent to 6½% of GDP. Over the latest 4-quarter period, Ottawa actually outborrowed the Canadian household sector, which is a distinctly rare 'feat' for a non-recessionary period.

#### Chart 3: Feds borrow more than normal (households the opposite)

Net demand for funds: GoC & Cdn households (2024:Q1 vs. long-term trend)



Source: NBF, StatCan | Note: Bars based on 25Y period, excl. 2020 due to COVID

The feds have been borrowing more than 'normal', deficit financing, partial CMB consolidation and other special factors at play. Meanwhile, households have (understandably) opted for a more cautious stance. With a larger structural shortfall, the feds are also accumulating debt faster than the other levels of government.

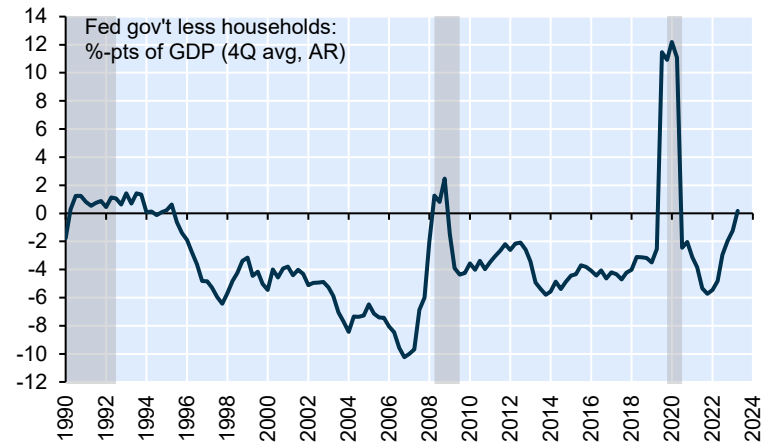
amongst others. Some of these domestic sectors still look to have some 'dry powder', which is somewhat comforting given that Ottawa's net financing needs remain non-trivial (and objectively larger than what underlying economic conditions argue for).

Without minimizing domestic investor support/subscription, when it comes to GoC debt absorption, we could perhaps assign the primary assist to non-residents. Whether domiciled in the U.S., Europe, the Middle East, Asia or elsewhere, foreign investors have collectively swallowed \$75 billion of GoC bonds and T-bills in the latest 12 months alone (to April). That's almost double the amount of cash required to finance the federal government's annual deficit.

Deep and broad international demand has eased the adjustment to ongoing BoC QT, even if a more pronounced non-resident footprint creates its own source of potential risk (should foreign attitudes really break against us and/or related leverage get seriously reined in).

#### Chart 2: ... which is pretty rare outside of recessions

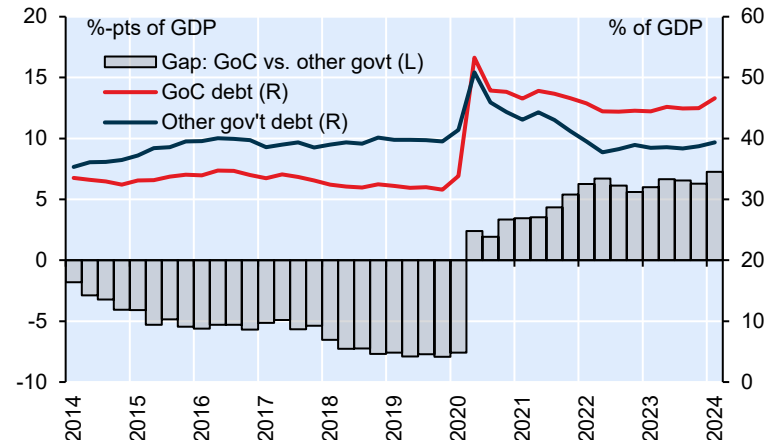
Relative demand for funds: GoC vs. Cdn households



Source: NBF, StatCan | Note: Difference in net demand for funds (all sources)

#### Chart 4: Ottawa takes on more debt than other Cdn gov'ts

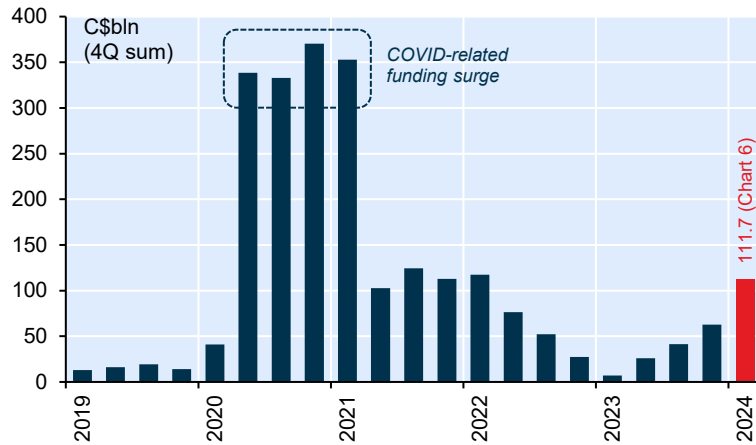
Relative debt burden: GoC vs. other levels of Cdn gov't



Source: NBF, StatCan | Note: Based on quarterly book value of debt securities o/s

### Chart 5: The net supply of GoC debt has stepped up...

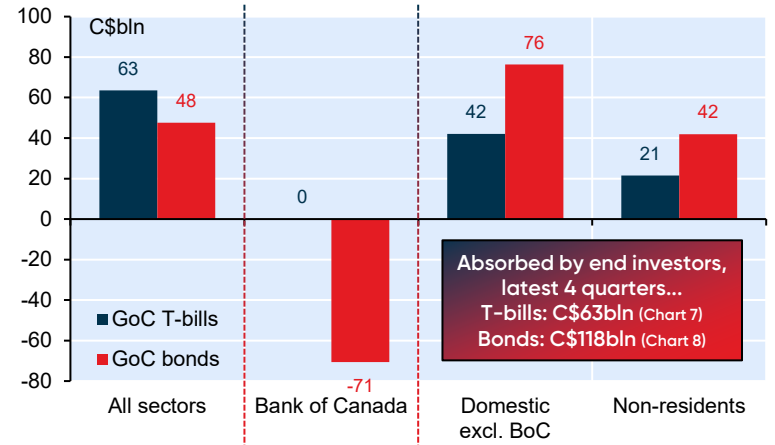
GoC net borrowing (all sources)



Source: NBF, StatCan | Note: Based on quarterly net financial market summary

### Chart 6: ... even more so after controlling for BoC QT

Net issuance of GoC T-bills & bonds, incl. change in BoC holdings (latest 4Q)

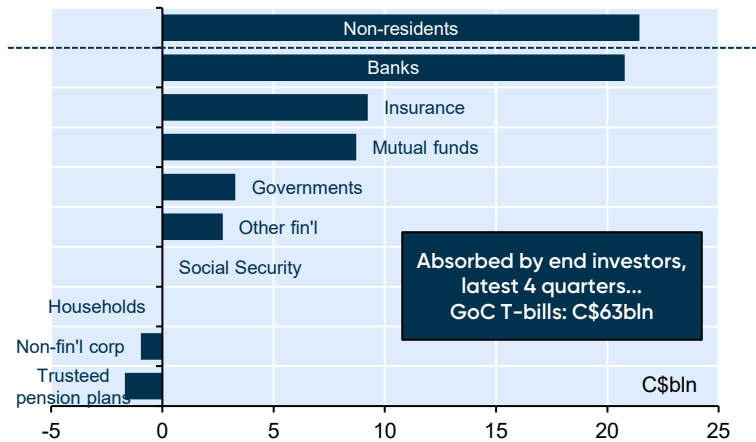


Source: NBF, StatCan | Note: Based on market value of net financial flows to 2024:Q1

Incorporating Q1's big lift, Ottawa's net demand for funds surpassed \$110 billion in the latest 4-quarter period. While far below the COVID-related peak, reported net borrowing understates how much GoC product end investors are really being asked to absorb given that the BoC continues to run assets off its balance sheet (via QT).

### Chart 7: Who has absorbed the extra GoC T-bills?

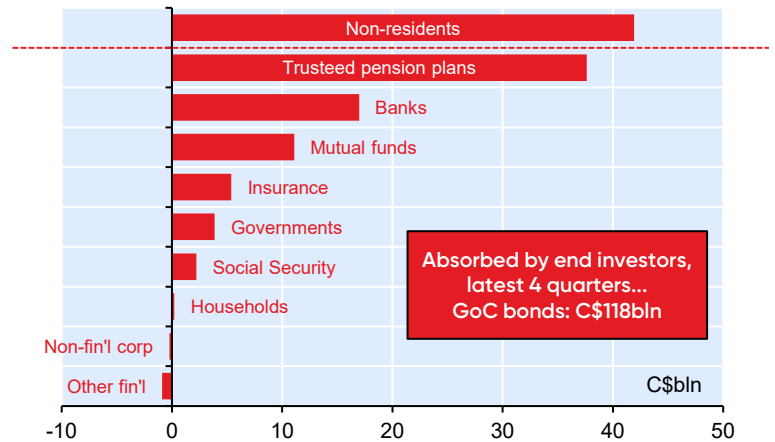
Net investment in **GoC T-bills** by major sector/investor type (latest 4Q)



Source: NBF, StatCan | Note: Based on market value of net financial flows to 2024:Q1

### Chart 8: No shortage of GoC bonds available to end investors

Net investment in **GoC bonds** by major sector/investor type (latest 4Q)

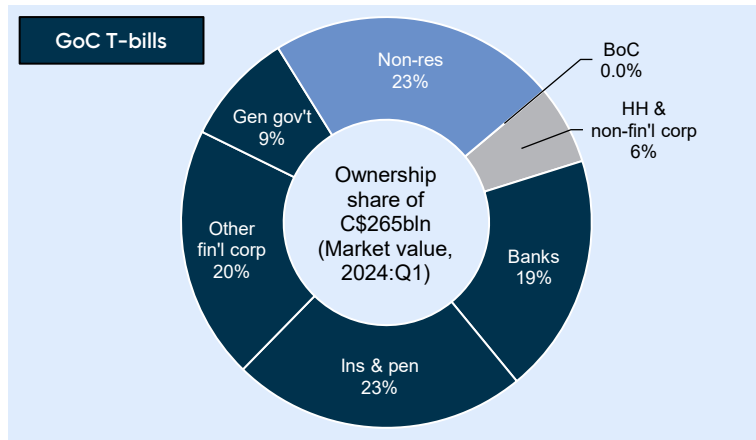


Source: NBF, StatCan | Note: Based on market value of net financial flows to 2024:Q1

Domestically, a few usual suspects absorbed much of the extra GoC debt, notably banks, pension funds, insurers and mutual funds. Meantime, a diverse collection of non-resident investors combined to take down almost half of the extra GoC debt (T-bills + bonds) created in the past year—an increasingly vital sleeve of demand.

### Chart 9: Breaking down ownership of larger GoC T-bill stock

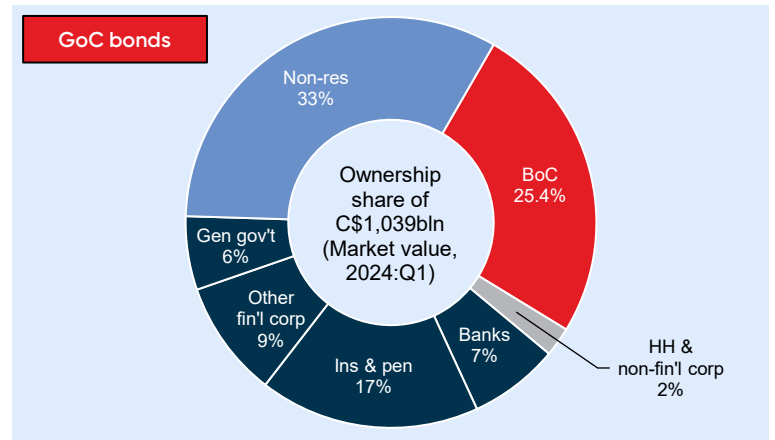
Snapshot of **GoC T-bill** ownership by major investor type (2024:Q1)



Source: NBF, StatCan | Note: Based on market value of assets by NBS sector(s)

### Chart 10: Holding pattern of Canada's will continue to evolve

Snapshot of **GoC bond** ownership by major investor type (2024:Q1)

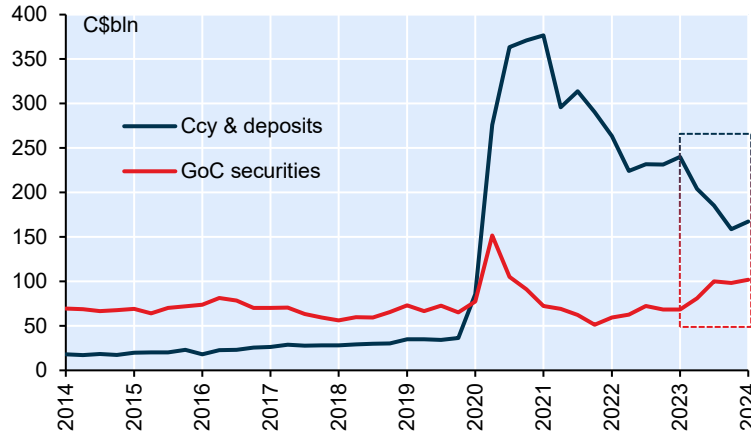


Source: NBF, StatCan | Note: Based on market value of assets by NBS sector(s)

Ownership snapshots mask the fact that neither T-bills nor bonds are in a 'steady state'. T-bills have been more plentiful, with a new 1M maturity part of Canada's reference rate transition. As for bonds, BoC QT necessitates greater participation from domestic and foreign investors alike. And we're not done, BoC runoff continuing.

**Chart 11: Balance sheet evolution at Canadian banks**

Select financial assets of Cdn chartered banks

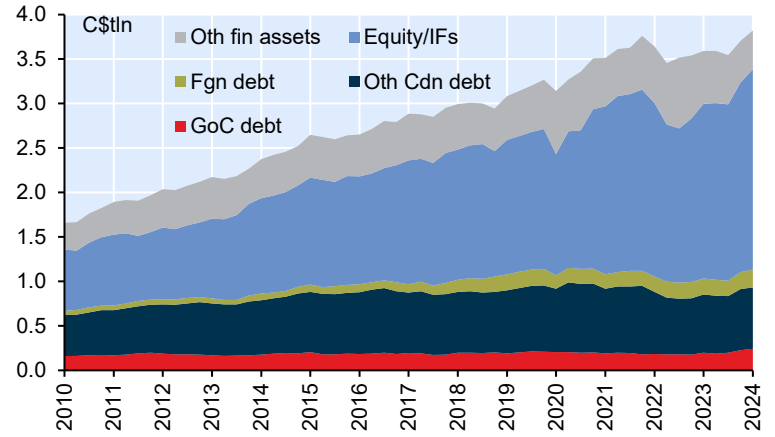


Source: NBF, StatCan | Note: Market value to 2024:Q1

The extra GoC debt held by our banks coincides with a reduction in excess financial system liquidity, although we've yet to hit a 'choke point'. Meanwhile, the marginal GoC paper taken on by trustee pension funds is part of a broader asset growth narrative, with the net assets of the social security system likewise expanding briskly.

**Chart 12: Assets of Canadian pension funds expand(ing)**

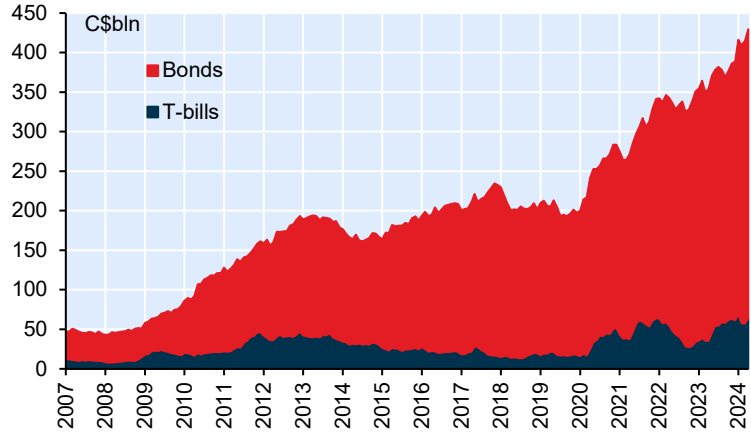
Composition of financial assets of Cdn trustee pension funds\*



Source: NBF, StatCan | Note: Market value to 2024:Q1; separate from social security

**Chart 13: Non-residents build up positions in GoC debt**

Non-resident holdings of GoC debt (CAD-denominated issues only)

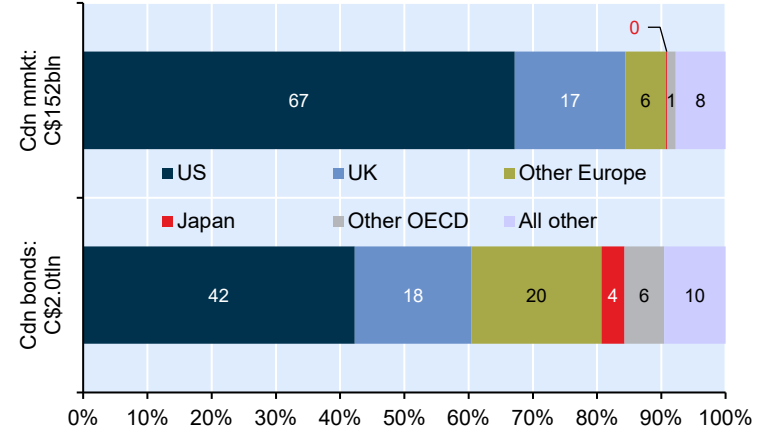


Source: NBF, StatCan | Note: Book value to Apr-24

Collectively, non-residents held \$430 billion of GoC debt as of April, the book value of these holdings more than double the level that prevailed pre-COVID. We can't perfectly isolate for country of origin, but based on all sector/all currency trends, it seems more investors from more corners of the globe are involved in the GoC market.

**Chart 14: Deep and broad foreign investor participation**

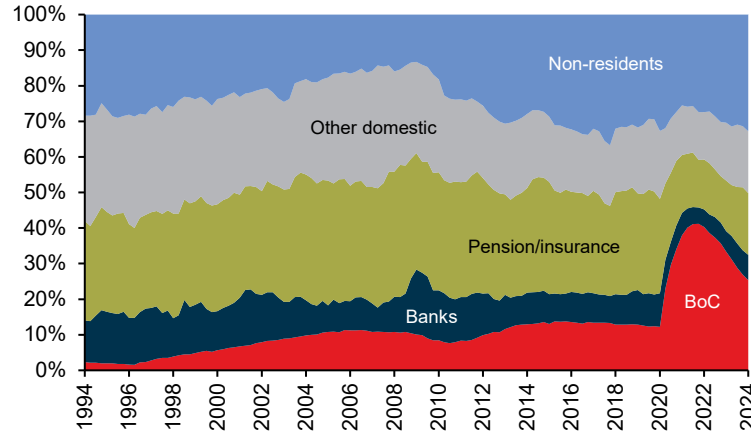
Non-resident holdings of Cdn debt by country of origin (Apr-24)



Source: NBF, StatCan | Note: Book value as at Apr-24; refers to all sectors & currencies

**Chart 15: BoC QT requires others to step up**

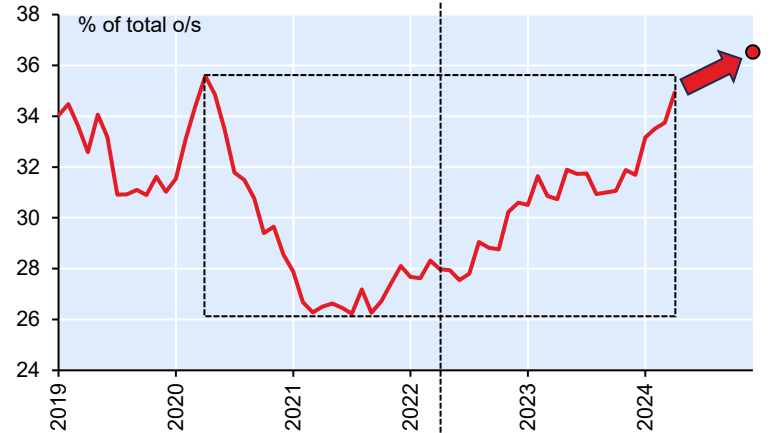
Distribution of holdings of GoC bonds by major investor type



Source: NBF, StatCan | Note: Based on market value to 2024:Q1

**Chart 16: The growing foreign footprint in GoC bond market**

Non-resident ownership share of GoC bonds, incl. NBF projection to Dec-24



Source: NBF, StatCan, BoC | Note: Based on book value to Apr-24 plus NBF simulation

On the one hand, non-resident investor interest is welcome news for a GoC market being served up net supply, particularly in bonds as BoC asset runoff remains a focus. Non-residents owned 35% of all GoC bonds as of April, the record foreign ownership share of 39% increasingly in focus. A heavy reliance on international investors is not without risk mind you, should this interest abruptly fade and/or leveraged positions get exited quickly—this latter worry recently flagged by the BoC ([here](#)).

**Table: Detailing the ownership of C\$5.33 trillion of Canadian debt securities**

Market value & share of total holdings: Canadian debt securities by type of paper & holdings by detailed NBS sector (as at 2024:Q1)

Holdings (C\$bIn, market value)	Cdn debt securities	Canadian short-term paper			Canadian bonds				
		All Cdn ST paper	Gov't of Canada	Other sectors	All Cdn bonds	Gov't of Canada	Provincial gov'ts	Local gov'ts	Other sectors*
Total all sectors	5,331.1	716.3	265.1	451.2	4,614.7	1,038.9	932.2	64.7	2,578.9
Domestically held (incl. monetary authority)	3,284.7	532.2	204.9	327.3	2,752.5	697.7	711.9	55.7	1,287.2
Households & non-profit institutions	97.9	8.5	1.2	7.4	89.3	15.7	19.3	14.7	39.6
Corporations	2,810.7	430.9	180.2	250.7	2,379.8	621.8	591.6	34.8	1,131.7
Non-financial corporations	110.7	69.1	15.5	53.6	41.6	8.3	3.1	0.0	30.1
Financial corporations	2,700.1	361.8	164.7	197.1	2,338.3	613.5	588.5	34.8	1,101.6
<b>Bank of Canada</b>	<b>279.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>279.7</b>	<b>263.8</b>	<b>9.2</b>	<b>0.0</b>	<b>6.7</b>
Chartered banks & quasi-banks	551.7	91.8	50.1	41.7	459.9	73.7	150.0	7.0	229.2
Insurance & pension funds	932.6	109.0	61.7	47.4	823.6	180.3	319.2	22.7	301.4
Life insurance business	220.1	16.8	10.9	5.9	203.3	17.3	58.6	14.9	112.5
Segregated funds of lifecos	29.8	4.2	0.9	3.2	25.6	5.9	8.2	0.0	11.5
Trusteed pension plans	581.7	74.6	41.7	33.0	507.1	126.9	227.2	7.8	145.1
Property & casualty insurance	101.0	13.5	8.2	5.3	87.6	30.2	25.1	0.0	32.2
Total other private financial institutions	662.3	150.9	46.1	104.8	511.4	83.2	106.1	5.0	317.0
Financial gov't business enterprises	273.8	10.0	6.8	3.1	263.8	12.5	4.0	0.0	247.3
General governments	376.1	92.8	23.6	69.2	283.3	60.2	101.1	6.2	115.9
Federal general government	16.6	0.4	0.0	0.3	16.3	7.8	0.2	0.0	8.2
Other levels of general government	254.9	72.9	23.5	49.3	182.0	36.1	60.6	5.3	80.1
Provincial & territorial governments	206.5	62.0	23.4	38.6	144.5	32.0	49.6	0.3	62.6
Local governments	48.4	10.9	0.1	10.8	37.5	4.1	11.0	4.9	17.5
Social security funds	104.6	19.6	0.0	19.6	85.1	16.3	40.3	0.9	27.5
Non-residents	2,046.4	184.2	60.3	123.9	1,862.2	341.2	220.3	9.0	1,291.7

Distribution of holdings by security type (%)	Cdn debt securities	Canadian short-term paper			Canadian bonds				
		All Cdn ST paper	Gov't of Canada	Other sectors	All Cdn bonds	Gov't of Canada	Provincial gov'ts	Local gov'ts	Other sectors*
Total all sectors	100%	100%	100%	100%	100%	100%	100%	100%	100%
Domestically held (incl. monetary authority)	62%	74%	77%	73%	60%	67%	76%	86%	50%
Households & non-profit institutions	2%	1%	0%	2%	2%	2%	2%	23%	2%
Corporations	53%	60%	68%	56%	52%	60%	63%	54%	44%
Non-financial corporations	2%	10%	6%	12%	1%	1%	0%	0%	1%
Financial corporations	51%	51%	62%	44%	51%	59%	63%	54%	43%
<b>Bank of Canada</b>	<b>5.2%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>6.1%</b>	<b>25.4%</b>	<b>1.0%</b>	<b>0.0%</b>	<b>0.3%</b>
Chartered banks & quasi-banks	10%	13%	19%	9%	10%	7%	16%	11%	9%
Insurance & pension funds	17%	15%	23%	10%	18%	17%	34%	35%	12%
Life insurance business	4%	2%	4%	1%	4%	2%	6%	23%	4%
Segregated funds of lifecos	1%	1%	0%	1%	1%	1%	1%	0%	0%
Trusteed pension plans	11%	10%	16%	7%	11%	12%	24%	12%	6%
Property & casualty insurance	2%	2%	3%	1%	2%	3%	3%	0%	1%
Total other private financial institutions	12%	21%	17%	23%	11%	8%	11%	8%	12%
Financial gov't business enterprises	5%	1%	3%	1%	6%	1%	0%	0%	10%
General governments	7%	13%	9%	15%	6%	6%	11%	10%	4%
Federal general government	0%	0%	0%	0%	0%	1%	0%	0%	0%
Other levels of general government	5%	10%	9%	11%	4%	3%	6%	8%	3%
Provincial & territorial governments	4%	9%	9%	9%	3%	3%	5%	1%	2%
Local governments	1%	2%	0%	2%	1%	0%	1%	8%	1%
Social security funds	2%	3%	0%	4%	2%	2%	4%	1%	1%
Non-residents	38%	26%	23%	27%	40%	33%	24%	14%	50%

Source: NBF, StatCan | Note: Canadian debt securities include issues denominated in CAD as well as securities denominated in foreign currencies; other Canadian bond sectors includes corporates, CMB, GBEs, other public sector, etc.



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