

It's officially here, Canada's new 30Y bond

By Warren Lovely

My colleague, Taylor Schleich, previewed Canada's new 30-year bond in a detailed note last week. Refer to that *Market View* note (Vol. V, No. 74) [here](#). With the security having now been officially birthed, we're taking a moment to comment on this important new issue via a brief *Addendum*. We offer up some colour on how the new bond was received, providing detailed auction metrics for context on page 2.

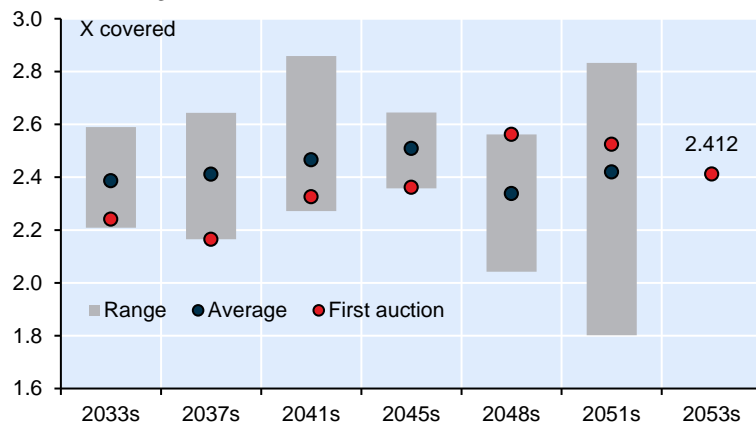
The first C\$3 billion of the new 30-year bond—CAN 1.75% 1-Dec-2053—was auctioned at noon. The market had been leaking a bit today, a by-product of improved risk sentiment after a few risk-off sessions. Nonetheless, we digested the first three yards (or C\$2.61 billion net of the BoC's standard 13% allotment) of the new bond without much difficulty. The auction was reasonably well covered (2.41 times) (Chart 1) and didn't tail excessively (0.3 bps, based on an average yield of 1.779%) (Chart 2). The existing benchmark (CAN 2% Dec-2051s) held its ground in the immediate post-auction period. Those 2051s are currently trading in/around 1.75% in another holiday-lightened session, out about a bp and half from Wednesday's close but outperforming Treasuries by nearly 2 bps on the day (despite Canada's long supply). Note: The Treasury came with 7s today. We'd likewise note that Canada's 10Y-30Y curve has snugged up today, flattening 2 bps on the week in a reflection of relatively strong demand for the long end of the curve. All in all, call it outperformance for long Canadas for an in-process session.

So begins the process of building the new 30Y benchmark. At C\$3 billion a go and 10 ops (or more) per fiscal year, the 2053s could require no more than a year and a half to achieve benchmark status—much faster than prior iterations. As with the 2051s (launched in late 2017), the trend over the first handful of 2053s operations could be towards higher yields and greater pricing discounts. That's based on our assessment of still-strong recovery prospects (in spite of Delta worries), continued tapering and the eventual onset of rate hikes. We acknowledge scope for some initial underperformance on the roll, although the current discount (2053s vs. 2051s) is at the wide end of the range. While a BoC QE taper means 2053s won't enjoy nearly as much policy support as the 2051s, we like long Canadas to outperform USTs structurally.

Note: Having set down the new marker in the long end of the Canada curve, the focus could shift to long provincial supply. A new Ontario 30-year benchmark is likely in the offing. Want some context on this prospective Ontario 30-year? Refer to our dedicated note [here](#).

Chart 1: Auction reasonably well covered for '53s first go

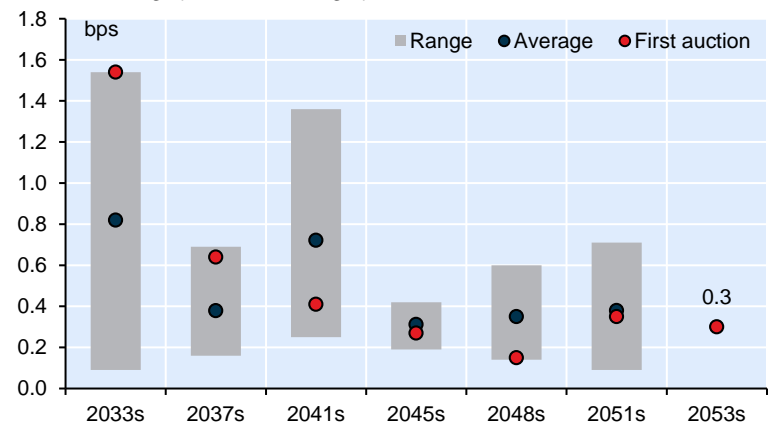
Auction coverage ratio: Select GoC 30Y bonds



Source: NBF, BoC

Chart 2: Hardly an excessive tail to get first C\$3 billion done

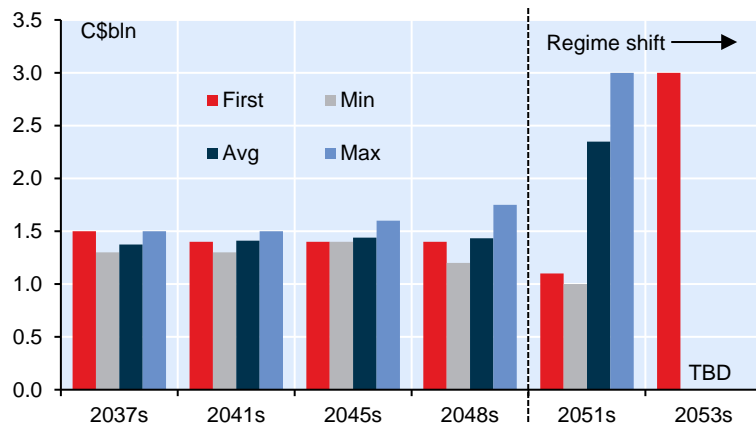
Auction tail (high yield less average yield): Select GoC 30Y bonds



Source: NBF, BoC

Chart 3: Long-end regime shift for GoC supply

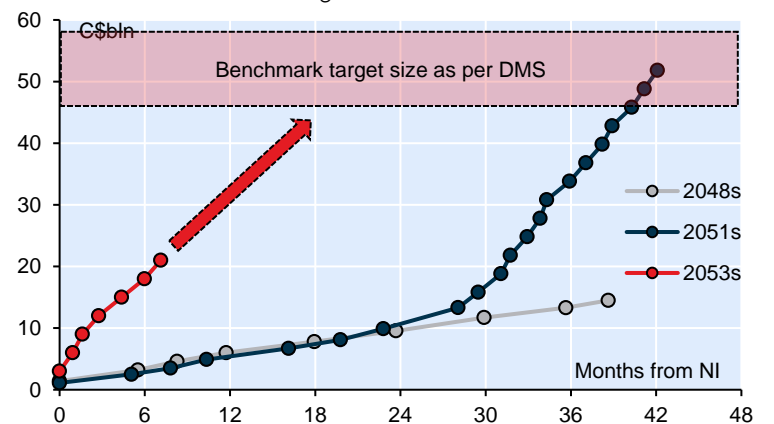
GoC 30Y auction sizes over life of individual bonds



Source: NBF, BoC | Note: Regime shift refers to increase in 30Y supply starting 2020-21

Chart 4: Building up size like never before

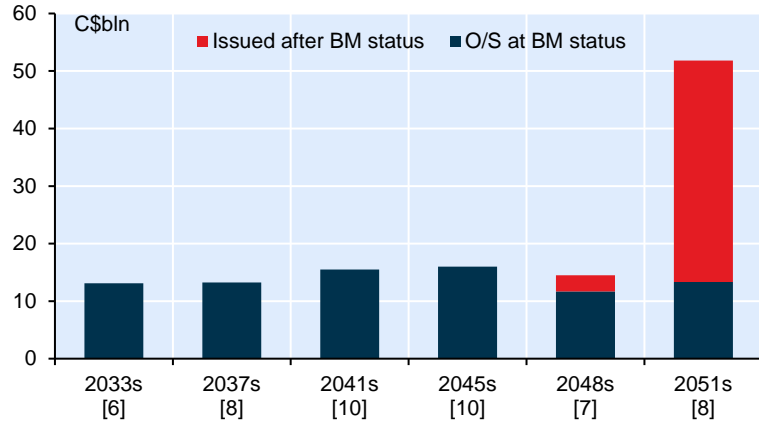
Evolution of amount outstanding over time: Select GoC 30Y bonds



Source: NBF, BoC, Finance Canada (DMS) | Note: Benchmark target size is C\$46-58 bln; path for 2053s is NBF estimate through balance of 2021-22 fiscal year

Chart 5: Benchmark status will come faster than ever

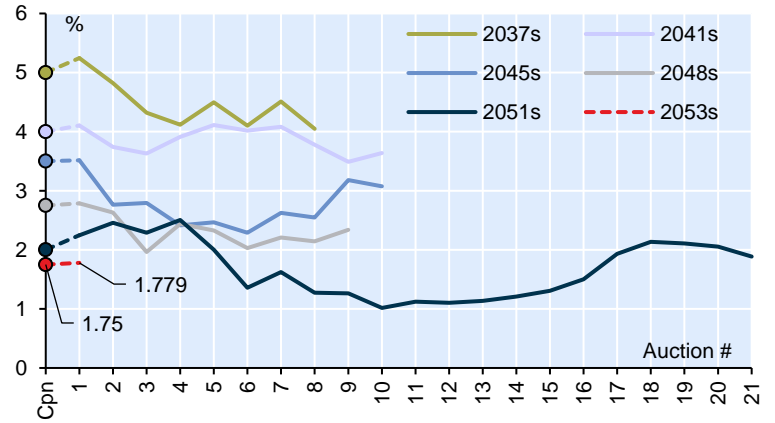
Distribution of GoC 30Y issuance relative to attainment of benchmark status



Source: NBF, BoC | Note: Figures in [] refer to number of auction to achieve BM status

Chart 6: Record low 30Y coupon, but yields set to move up?

Assigned coupon & average yield at auction: Select GoC 30Y bonds



Source: NBF, BoC, Bloomberg

Table: A closer look at 30Y auction results across individual bonds

Auction coverage ratio & tail: Summary statistics & detailed results by auction for select GoC 30Y bonds

	Auction coverage: Summary stats						
	2033s	2037s	2041s	2045s	2048s	2051s	2053s
First	2.241	2.165	2.326	2.362	2.562	2.525	2.412
Second	2.342	2.215	2.588	2.442	2.445	2.711	
Average	2.387	2.412	2.466	2.509	2.338	2.420	
Median	2.375	2.455	2.383	2.511	2.442	2.457	
Max	2.590	2.644	2.859	2.645	2.562	2.833	
Min	2.209	2.165	2.272	2.358	2.042	1.802	

	Auction tail (high yield less average yield): Summary stats						
	2033s	2037s	2041s	2045s	2048s	2051s	2053s
First	1.54	0.64	0.41	0.27	0.15	0.35	0.3
Second	1.11	0.69	0.64	0.36	0.29	0.28	
Average	0.82	0.38	0.72	0.31	0.35	0.38	
Median	0.80	0.33	0.68	0.33	0.39	0.36	
Max	1.54	0.69	1.36	0.42	0.60	0.71	
Min	0.09	0.16	0.25	0.19	0.14	0.09	

	Auction coverage: Individual auctions						
	2033s	2037s	2041s	2045s	2048s	2051s	2053s
1	2.241	2.165	2.326	2.362	2.562	2.525	2.412
2	2.342	2.215	2.588	2.442	2.445	2.711	
3	2.209	2.446	2.406	2.645	2.296	2.651	
4	2.590	2.532	2.359	2.592	2.112	2.649	
5	2.407	2.644	2.619	2.617	2.460	2.531	
6	2.532	2.463	2.352	2.496	2.227	2.336	
7		2.549	2.599	2.358	2.042	2.479	
8		2.279	2.282	2.466	2.442	2.833	
9			2.272	2.526	2.457	2.043	
10			2.859	2.586		1.802	
11						2.360	
12						2.252	
13						2.219	
14						2.491	
15						2.359	
16						2.363	
17						2.319	
18						2.460	
19						2.567	
20						2.457	
21						2.406	

	Auction tail (high yield less average yield): Individual auctions						
	2033s	2037s	2041s	2045s	2048s	2051s	2053s
1	1.54	0.64	0.41	0.27	0.15	0.35	0.3
2	1.11	0.69	0.64	0.36	0.29	0.28	
3	0.87	0.49	1.36	0.32	0.60	0.17	
4	0.58	0.23	0.64	0.30	0.33	0.36	
5	0.73	0.17	1.18	0.34	0.42	0.28	
6	0.09	0.16	0.82	0.35	0.39	0.41	
7		0.30	0.41	0.42	0.44	0.14	
8		0.35	0.79	0.34	0.39	0.43	
9			0.72	0.23	0.14	0.67	
10			0.25	0.19		0.71	
11						0.42	
12						0.09	
13						0.43	
14						0.63	
15						0.30	
16						0.51	
17						0.66	
18						0.28	
19						0.18	
20						0.28	
21						0.40	

Source: NBF, BoC | Note: Line after auction coverage & tail in individual results table refers to auction after which benchmark status was achieved; coverage is ratio; tail is bps



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