Market View
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MTRS: Glass half full when it comes to provincial bond liquidity

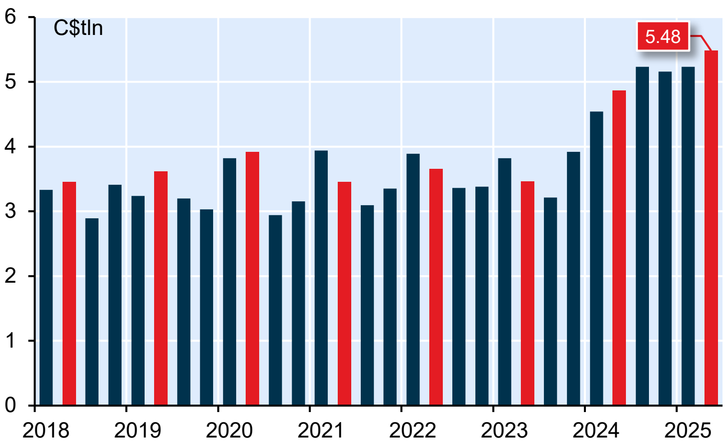
By Warren Lovely

As far as mid-year check-ins go, Canada's domestic bond market appears to be functioning just fine thank you very much. Notwithstanding immense/ongoing geopolitical uncertainty, legitimate questions over the nation's fiscal direction and prospective counterparty concentration risks (leveraged hedge fund activity a noted issue), Canada's bond market is currently characterized by healthy levels of secondary liquidity. That broad theme was well in evidence in the latest MTRS secondary trading stats (for the month of June and thus closing out the first half of the calendar year). Total secondary bond trading—all sectors, all tenors, all counterparties—set a fresh quarterly record in 2025:Q2, leaving total trading up smartly on a year-to-date basis.

This MTRS-specific *Market View* trains a focus on a strategically important sector: provincial government bonds. Total secondary trade in domestic provis appears legitimately brisk, even if recent monthly tallies are a touch removed from all-time highs.

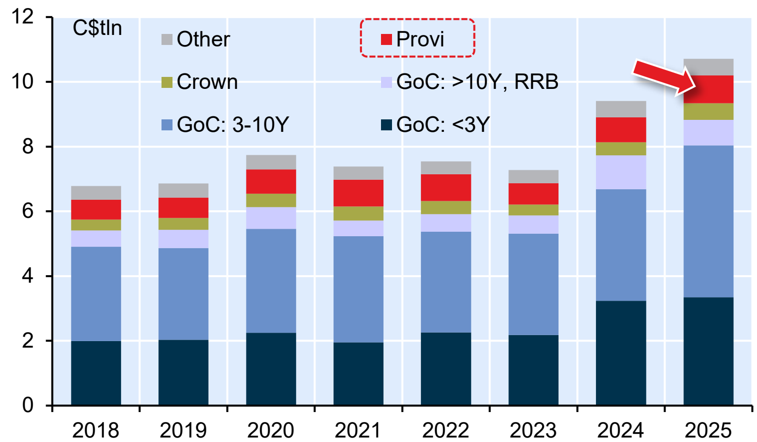
Sure, with relatively elevated primary issuance and a growing stockpile of outstandings, you'd expect plenty of provi bonds to be changing hands. Still, turnover ratios are rising, with good breadth and depth to counterparty engagement (and flows seemingly skewed to better buying of late, judging from tight spreads). Compared to some competing sectors, there's less concern over non-resident reliance/engagement. And there's relatively less concentration in dealer volumes in provis too. Half-year over and a glass half full. Check it out…

Chart 1: Fresh record for total domestic bond trading in Q2
Canada total domestic secondary bond trading (all sectors): Quarterly



Source: NBC, CIRO | Note: All dealers, all counterparties; Q2s highlighted in red

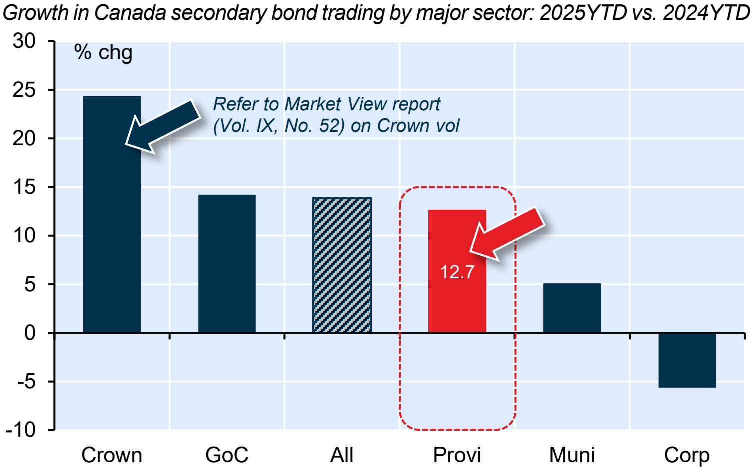
Chart 2: Provis account for 8% of YTD volume (GoC share=82%)
Canada secondary bond trading by sector/term: YTD



Source: NBC, CIRO | Note: All dealers, all counterparties; YTD refers to Jan-Jun

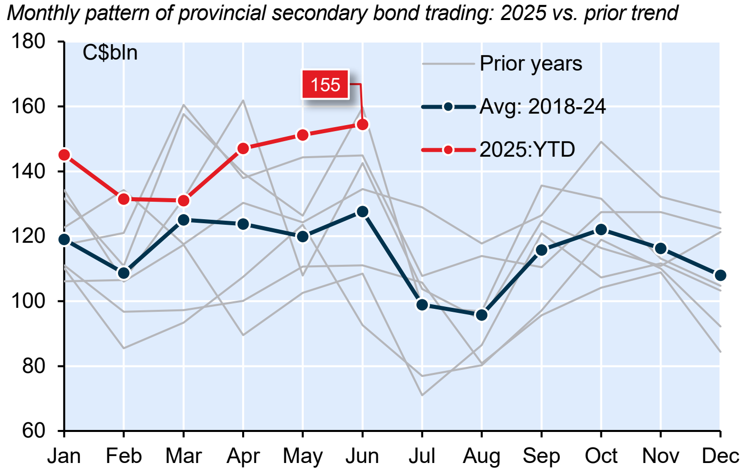
Canada set a fresh record for total domestic bond trading (i.e., all sectors, not just provincials) in 2025:Q2, with total secondary volumes topping $5 trillion for a fourth straight quarter. The GoC accounts for the lion's share of domestic bond trading (>80%). Nothing new there. While less than 10% of domestic trading, provincials remain the definition of a strategically important sector.

Chart 3: Provis hardly only sector seeing volume gains
Growth in Canada secondary bond trading by major sector: 2025YTD vs. 2024YTD



Source: NBC, CIRO | Note: All dealers, all counterparties; YTD refers to Jan-Jun

Chart 4: Provi volumes tracking well above average in 2025
Monthly pattern of provincial secondary bond trading: 2025 vs. prior trend

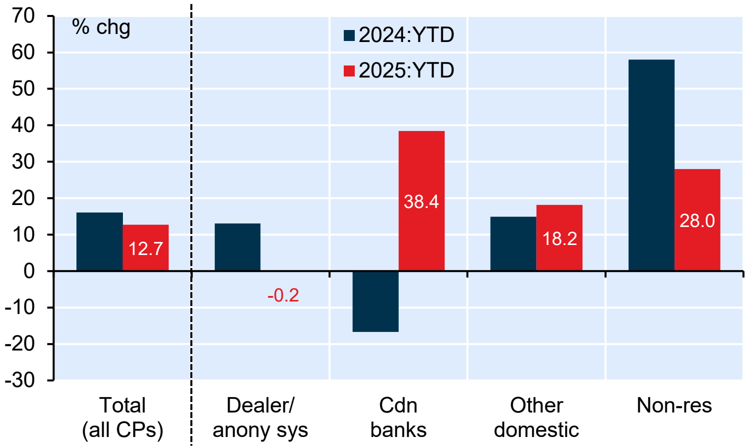


Source: NBC, CIRO | Note: All dealers, all counterparties; prior years refers 2018-24

Most sectors of the domestic bond market saw trading volumes step up in the first half of 2025. Fastest of all has been the federal crown corp sector, which we explored earlier (refer to a dedicated *Market View* **here**). Back to provis… June's $155 billion of secondary volume leaves the YTD level roughly 13% above the corresponding year-earlier tally. So even if last month's volume fell a bit shy of all-time records (for the MTRS 2.0 reporting regime that dates from 2018 onwards), all-dealer provincial bond trading has settled into a distinctly above-average rhythm in 2025.

Chart 5: Client flow drives this year's volume increase…

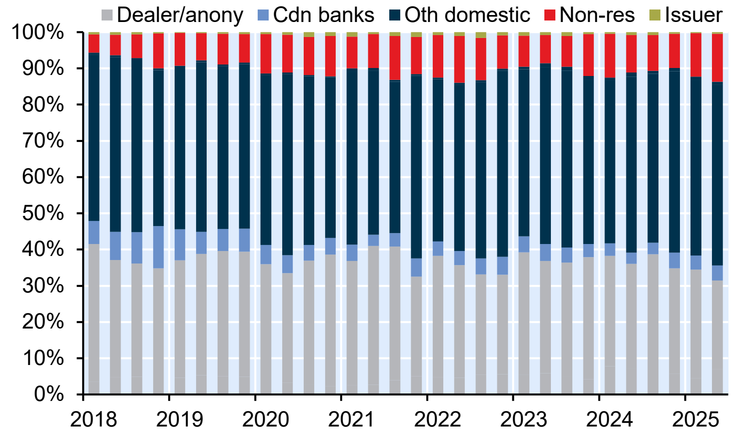
Growth in provincial secondary bond trading by counterparty type



Source: NBC, CIRO | Note: All dealers; YTD refers to Jan-Jun

Chart 6: … with big footprint for non-bank institutional clients

Share of provincial secondary bond trading by major counterparty type: Quarterly

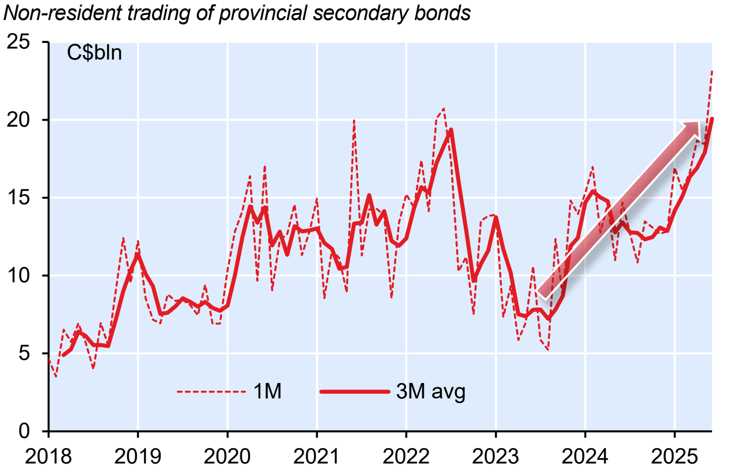


Source: NBC, CIRO | Note: All dealers

Attribution analysis shows end investors—be they Canadian banks, other domestic clients or non-residents—accounting for all of the increase in YTD provincial bond trading. Without trivializing other counterparty types, a large and growing share of provi trade can be traced to Canada's non-bank institutional clients (incl. pensions, insurers, other asset managers). Then there's non-res…

Chart 7: Yes, non-residents are more active in CAD provis…

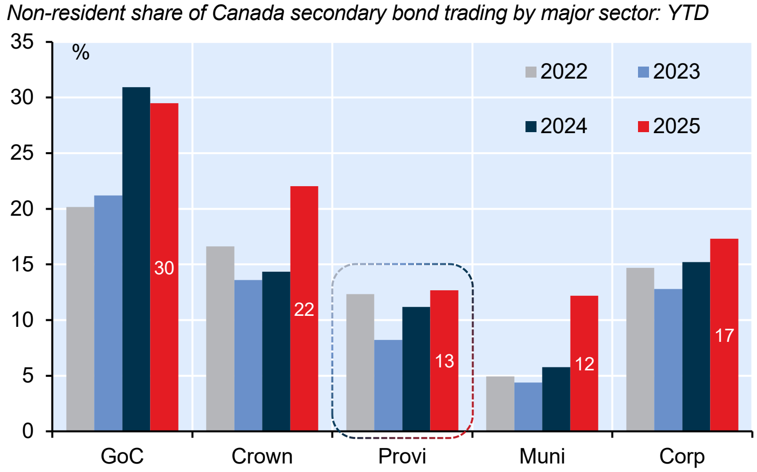
Non-resident trading of provincial secondary bonds



Source: NBC, CIRO | Note: All dealers; latest data point refers to Jun-25

Chart 8: … but non-res flow fairly contained (vs. some others)

Non-resident share of Canada secondary bond trading by major sector: YTD

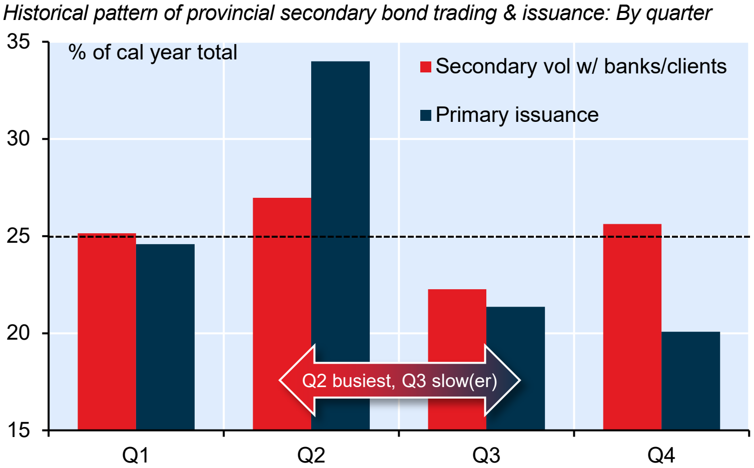


Source: NBC, CIRO | Note: All dealers; YTD refers to Jan-Jun

Non-resident investors are active in domestic provincial bonds… in fact, increasingly so, as Jun-25 set a new record for non-resident flow. For domestic provis, there's generally less reliance on (exposure to) non-residents than other sectors (e.g., GoC, crowns). Of course, provincials have extra/additional exposure to non-residents via the international bonds they continue to issue.

Chart 9: Seasonality in provincial volumes? You betcha

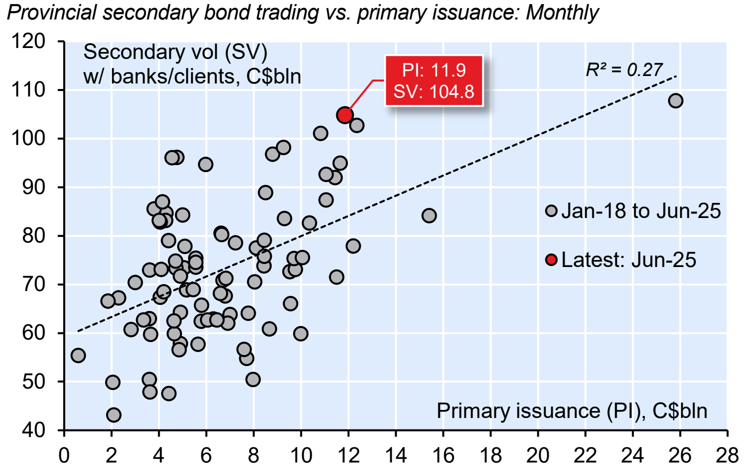
Historical pattern of provincial secondary bond trading & issuance: By quarter



Source: NBC, CIRO, BBG | Note: Averages by quarter based on last seven years (2018-24)

Chart 10: But issuance-adjusted volume still looks brisk

Provincial secondary bond trading vs. primary issuance: Monthly

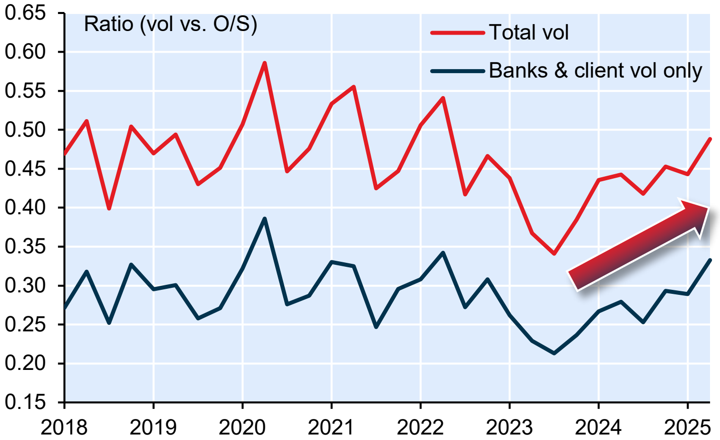


Source: NBC, CIRO, BBG

Secondary volumes can and do take a cue from primary supply, which in turn is linked to the fiscal reporting cycle and cashflow/maturity timelines. History shows that cash-rich Q2 is (on average) the busiest quarter of the year for provincial secondary bond trading and domestic issuance. A summer slowdown (in trading volume and issuance) tends to follow, and 2025 looks to respect that tendency. Still, on a seasonally adjusted and/or issuance-adjusted basis, the recent level of provincial bond trading looks legitimately brisk/healthy (and biased to net buying particularly in 10s).

Chart 11: Relative turnover up, including with clients

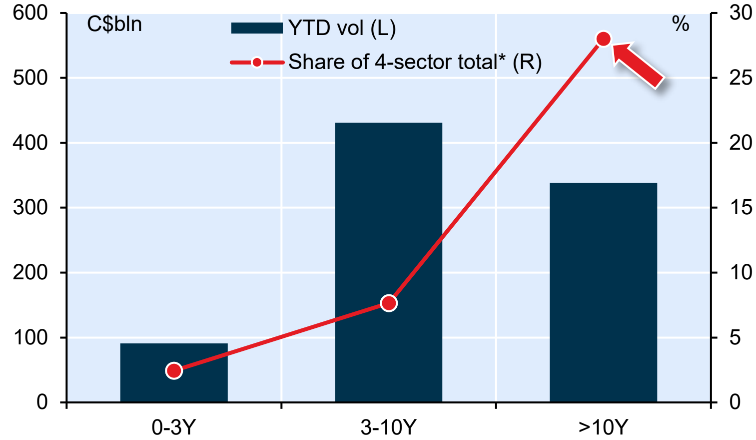
Turnover ratio for domestic provincial bonds: Quarterly rate



Source: NBC, CIRO, BBG | Note: Ratio of secondary volume (all dealers) to CAD bonds O/S

Chart 12: Provi trading (like new issues & debt stock) skews longer

Provincial secondary bond trading by tenor: 2025YTD

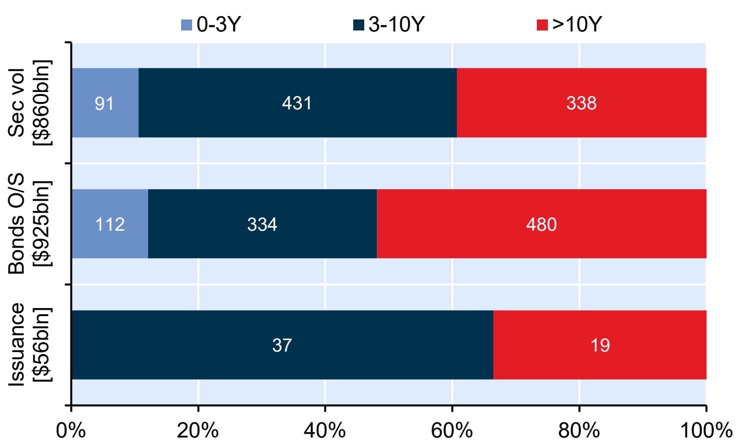


Source: NBC, CIRO | Note: 4-sector total is GoC, crown, provi, corp; YTD refers to Jan-Jun

Operating deficits and capital spending mean a growing stock of outstanding provi bonds. It follows that secondary volumes should trend higher (all else equal). Nonetheless, turnover ratios (which control for the bond stock) has moved up, with clients more actively turning their provincial bonds over. More provi trade skews longer, where the bulk of new issue supply comes and bonds reside.

Chart 13: Perspective on provi trading by ***bucket/tenor***

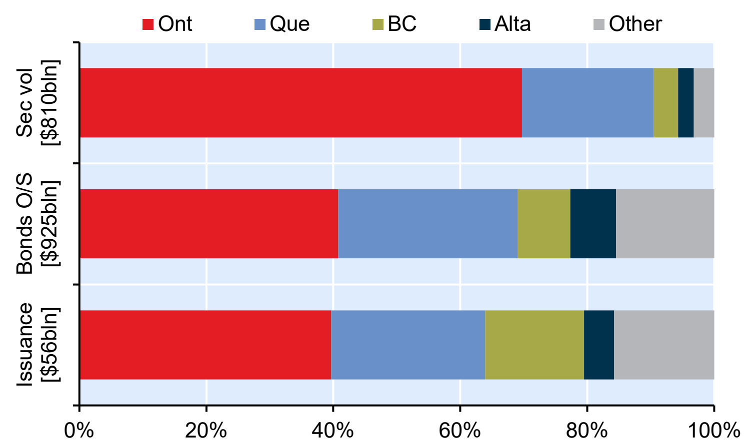
Provincial bond trading, bonds outstanding & primary issuance by tenor



Source: NBC, CIRO, BBG | Note: Sec vol & issuance refer to 2025YTD; O/S as at 11-Jul-25

Chart 14: Perspective on provi trading by ***major issuer***

Provincial bond trading, bonds outstanding & primary issuance by issuer

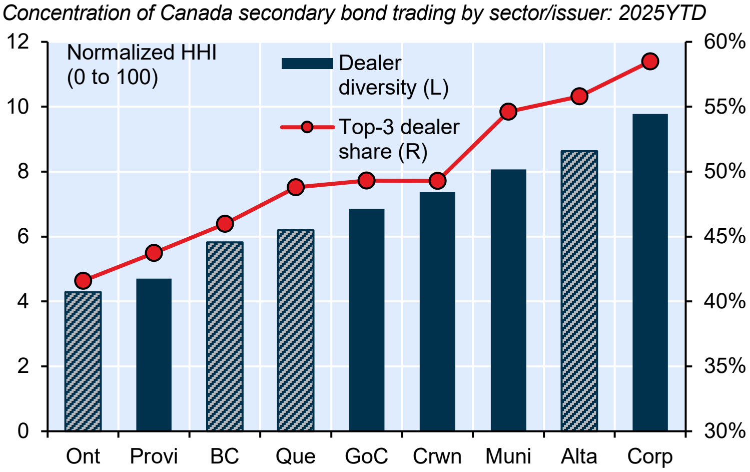


Source: NBC, CIRO, BBG | Note: Sec vol & issuance refer to 2025YTD; O/S as at 11-Jul-25

Following from Chart 12, the heavy skew of provincial trading to the 3-10Y and >10Y buckets reflects the broader provincial government bond maturity profile. In primary, there tends to be little to no new issue supply in the short end. Secondary liquidity in the provincial bellwether—Ontario—remains exceptional/outsized, with that province's turnover ratio well above the rest of the sector.

Chart 15: Less concentration in provi bond trading…

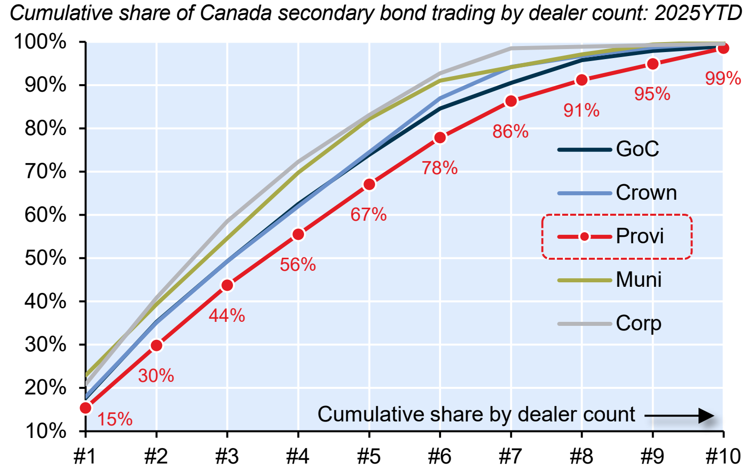
Concentration of Canada secondary bond trading by sector/issuer: 2025YTD



Source: NBC, CIRO | Note: HHI is Herfindahl-Hirschman Index based on individual dealer shares of total trading; YTD refers to Jan-Jun

Chart 16: … with top dealers accounting for smaller share

Cumulative share of Canada secondary bond trading by dealer count: 2025YTD



Source: NBC, CIRO | Note: Cumulative share of trading shown for top-10 dealers only, although total number of dealers ranges from 13-15; YTD refers to Jan-Jun

Statistically speaking, there's less dealer concentration when it comes to provincial secondary bond trading. Even if you're not familiar with a Herfindahl-Hirschman Index, the top handful of dealers account for proportionately less provincial volume than in all other major sectors of the domestic bond market. More bonds trading hands and more dealers to, well, deal with. A healthy market.

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