

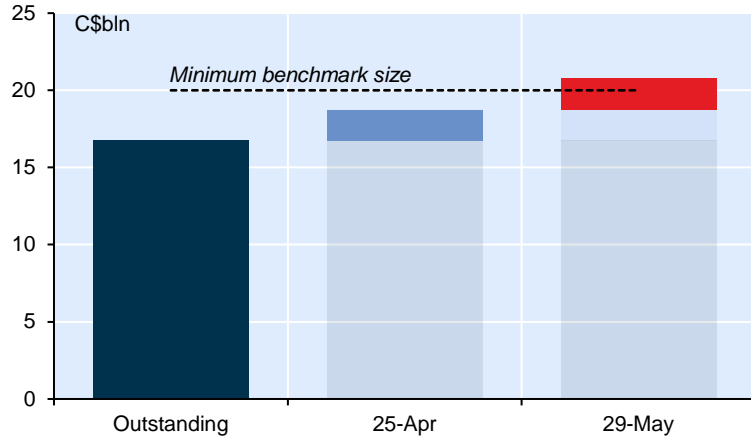
Spotlight on the long-end

By Taylor Schleich

We recently wrote about the Government of Canada bond supply outlook after last week's federal budget and updated *Debt Management Strategy* (you can find that [here](#)). In this short, chart-heavy note, we focus on the 30-year sector with the fiscal year's first dose of long bond supply on tap for tomorrow. While the Dec55s aren't as cheap as they were last fall when we [profiled the sector](#), there still may be some value in this bond and the 30-year sector more generally.

Chart 1: Dec55s are closing in on sufficient benchmark size

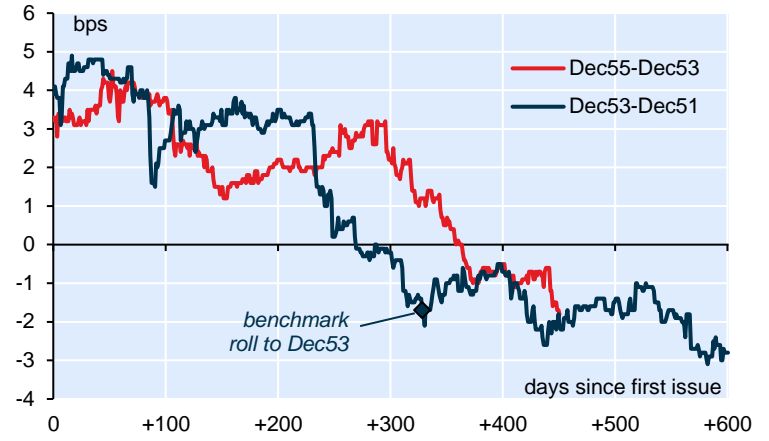
Dec55 outstandings with next two announced issues



Source: NBF, BoC | Note: Assumes 29-May auction is also for \$2 billion

Chart 2: Dec55-Dec53 roll may have a bit more room to run

Current and prior 30-year roll aligned to first issue date

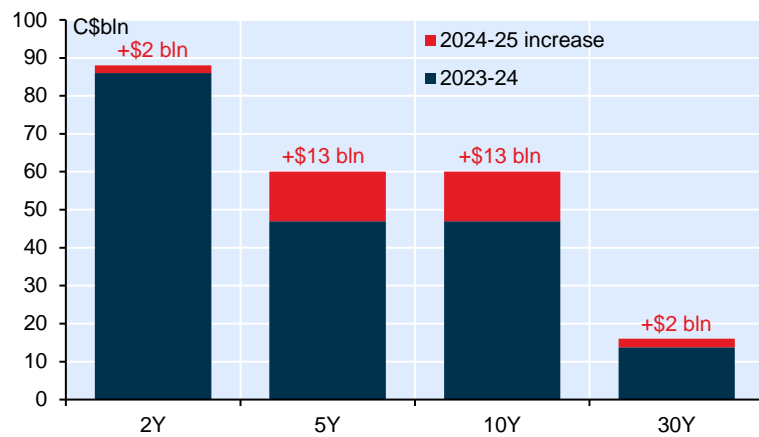


Source: NBF, Bloomberg

The Dec55s won't take over as 30-year benchmark this week but another \$2 billion tap in late May would see the bond breach the minimum threshold. Recall the typical behaviour for building benchmarks: The bond starts out cheap at issue date, gradually outperforming the incumbent benchmark as it grows. That's played out this time, just as it did with the Dec53s before it. A lot of juice may have been squeezed here but there may be more room to run judging by the Dec53-Dec51 roll.

Chart 3: Supply increases skewed to 5- and 10-year sector

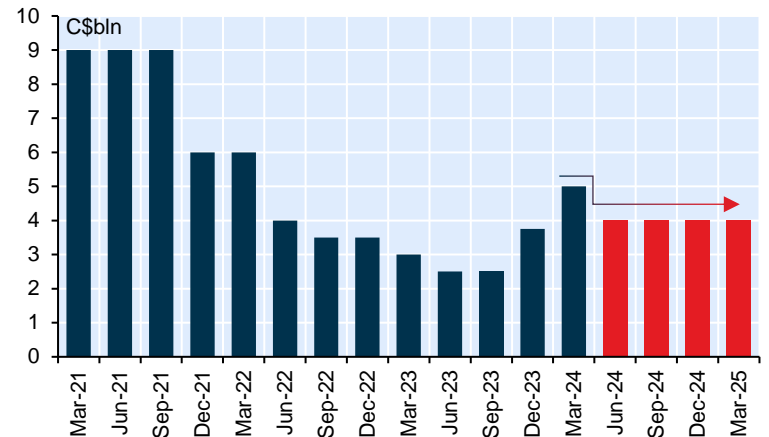
2023-24 gross issuance plus 2024-25 increases, by sector



Source: NBF, GoC | Note: 3Ys excluded. There was \$6 bln of issuance in 2023-24.

Chart 4: Quarterly long bond supply to step down

30-year GoC bond issuance by quarter

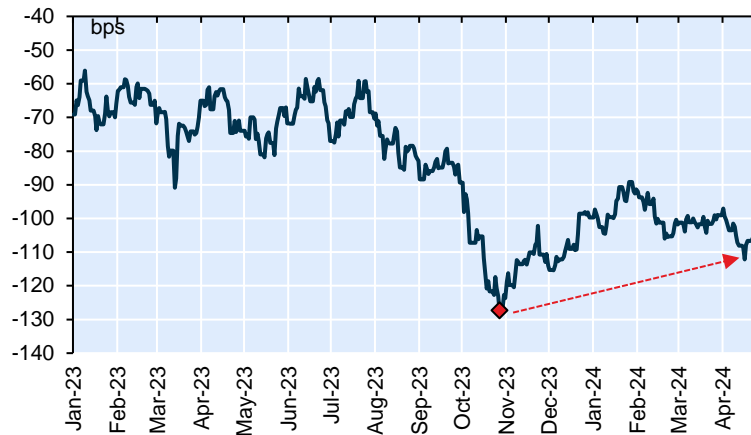


Source: NBF, BoC, GoC | Note: Quarterly pattern assumed to be static throughout FY

Supply considerations favour the long end (vs. 5s or 10s) as the sector was spared from much of the marginal issuance in last week's *Debt Management Strategy*. While there will technically be \$2 billion more 30-year bonds in 2024-25 vs. 2023-24, the quarterly pace is set to decelerate from the pace we saw from January to March. That's not the case in the 5- and 10-year sectors where issuance will hold steady at \$15 billion per quarter.

Chart 5: GoCs rich to USTs... but not as rich as last fall

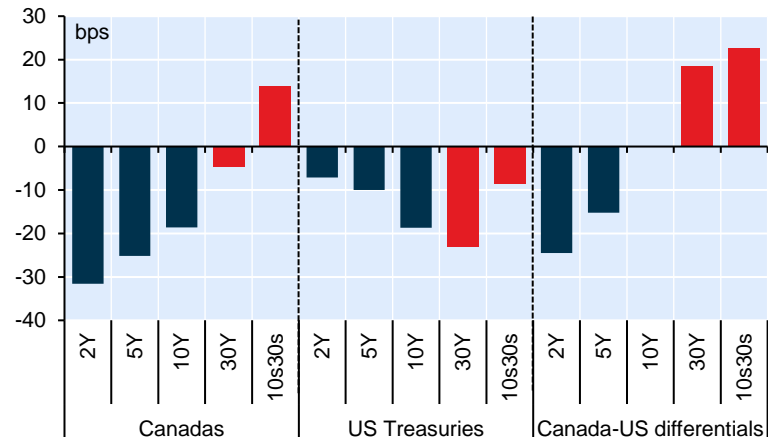
30-year yield differential: Canada less U.S.



Source: NBF, Bloomberg

Chart 6: Canada cheaper vs. USTs or on the curve

Change in yields and differentials: Last 6 months



Source: NBF, Bloomberg

On the surface, 30Y GoCs don't scream cheap compared to Treasuries, that yield differential hovering around -110 bps. Nonetheless, long Canadas are much cheaper than last fall when they flirted with -130 bps. That's not the case for the rest of the curve. Sure, earlier relative levels can be *partially* explained by U.S. fiscal/supply anxiety but there's always a risk of that coming back to focus and it's an area Canada holds a clear advantage. While priced to some extent, diverging Canadian and U.S. economies should lead to the BoC cutting earlier and faster than the Fed, supporting outperformance across the curve. Ignoring US comps, the Canada curve itself has steepened materially, cheapening up the long end on a relative basis. There's some value here, particularly for those anticipating a more stubborn/patient BoC.

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