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# RBC CAPITAL MARKETS
# CANADIAN PUBLIC SECTOR BORROWERS ROUNDTABLE

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RBC Capital Markets

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CANADA MORTGAGE AND HOUSING CORPORATION

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PROVINCE OF ALBERTA

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# Canada's borrowers enjoy solid demand in volatile world

Canada's low debt to GDP ratio and stable politics have made it a haven in a turbulent era in global politics. But, with fears of a wave of protectionism growing, the trade-focused country faces problems ahead. However, with its fiscal stimulus programme an example to other nations wishing to promote growth, Canada's borrowers are confident they can adapt and prosper in the new political reality. *GlobalCapital* hosted this roundtable in early December.

**David Ayre**, assistant treasurer, Canada Mortgage and Housing Corporation

**Paul Belanger**, managing director, government finance DCM, RBC Capital Markets

**Alex Caridia**, managing director, government finance DCM, RBC Capital Markets

**Mark Chandler**, managing director, head of Canadian fixed income and currency research, RBC Capital Markets

**James Devine**, capital markets, Ontario Financing Authority

**Susan Love**, vice president and treasurer, Export Development Canada

**Sam Myers**, executive director, debt management branch, treasury, British Columbia

**Guillaume Pichard**, director, capital markets, ministry of finance, Quebec

**Jigme Shingsar**, managing director, US debt capital markets, RBC Capital Markets

**Garry Steski**, assistant deputy minister, treasury division, director of capital markets, Province of Manitoba

**Stephen Thompson**, executive director, capital markets, Treasury board and finance, Province of Alberta

**James Wu**, chief, debt management, Department of Finance, Canada

**Lewis McLellan**, moderator, *GlobalCapital*

**GlobalCapital: How has the Canadian economy and those of its provinces fared in 2016?**

**James Wu, Department of Finance:** Overall, the Canadian economy has performed pretty well, growing modestly in 2016. The expectation is that real GDP growth for Canada will be around 1.2%. Several factors support growth in Canada, including stronger US domestic demand; continued accommodative monetary policy in Canada; a lower level of the Canadian dollar; and a relatively healthy labour market. To support growth, the government has taken fiscal actions, including tax cuts for the middle class, a new child care benefit, and very recently, additional infrastructure spending.

**Guillaume Pichard, Quebec:** The economic conditions in Quebec are fairly balanced. Job creation has been good and the unemployment rate is at an all-time low of 6.2%. Although growth in exports has not been as high as we forecasted, exports will remain a good driver of the economy. It's driven by a low Canadian dollar and a pick-up in the US economy.

**Garry Steski, Manitoba:** For Manitoba, our stable and diverse economy continues to outperform Canada and most of the other provinces. We expect GDP to be around 2.1% in 2016, and the same level in 2017. Construction, population growth and retail activity continue to be solid. Employment is down slightly, and manufacturing and wholesale trade activity are slow.

**James Devine, Ontario:** Ontario outperformed Canada in 2014 and 2015. If you were to take a survey of private sector economists, they're probably forecasting that Ontario will outperform Canada this year. We're looking at around 2.6% growth this year.

**Sam Myers, British Columbia:** British Columbia is experiencing steady economic performance in 2016 relative to 2015 and is fortunate enough to be among the top provinces when it comes to economic growth. The Province is forecasting real GDP to grow 2.7% in 2016, a conservative forecast that compares to a 2.9% growth estimate provided by private sector forecasters, all of which closely tracks BC's growth of 3.3% in 2014 and 2015.

**Stephen Thompson**
Province of Alberta

**Stephen Thompson, Alberta:** It's a slightly different story in Alberta. We still find ourselves in recession. We predict about a 2.8% contraction for the 2016 calendar year. That's been exacerbated by the impact of the wildfires at Fort Mac, which have impacted GDP by about -0.6% for the year. We are predicting a shallow recovery into 2017, looking at 2.3% growth by the end of 2017. There are some positive signs. Our minister did mention that there's stabilisation in some of the job market activity and drilling rig activity has picked up.

**GlobalCapital: How has the relative stability in the oil price affected your economy and your funding this year, particularly in light of the OPEC deal and your US dollar benchmark on December 1?**

**Thompson, Alberta:** I'm reluctant to call it oil price stability, but we'll take it as a start level. At current levels, we would expect to hit our budget target of about $45 a barrel on average for the 16/17 fiscal year. So that is helpful in terms of our fiscal situation. The impact of oil on our ability to fund ourselves has been quite volatile. Alberta does have a fairly large borrowing programme in this fiscal year, and the windows of opportunity to access, particularly international trades, have been limited. So we felt pressure prior to the OPEC meeting in gathering investor interest for some of our trades. So once we got to a window this year where we were very fortunate in that things stacked up, we were able to crowd in with some substantial funding: a US$2.25bn trade and a C$500m trade within 24 hours of each other. But the investor interest does seem to be quite volatile, and to be driven by immediate news impacts. So, if we had looked at the market the week before, we would simply not have been able to pull something like this off.

**Paul Belanger**
RBC Capital Markets

**Paul Belanger, RBC CM:** We saw a divergence in growth rates when oil prices went down. It's a tale of two economies in Canada. The provinces that depended on oil revenues saw a contraction in growth, but that helped manufacturing based provinces like Ontario and Quebec, who benefited from lower oil prices, and from the weaker Canadian dollar. But in 2017 our forecast sees more consistent growth across the country, with oil having come back.

**Mark Chandler, RBC CM:** That's true for our prices too. Our WTI price forecast for 2017 is $56 a barrel.

**GlobalCapital: What is the prospect for Bank of Canada rate movements?**

**Chandler, RBC CM:** Our forecast is for the Bank of Canada to be on hold throughout 2017. If you look at what markets are pricing in, they're suggesting a 50% chance of a 25bp hike by the end of the year. If we do get feedthrough from fiscal stimulus kicking in, and also some derived demand, if there's potential US fiscal stimulus, we should see the markets start to think about Canada hiking rates. In our forecast we have it happening around mid-year 2018.

**GlobalCapital: The real estate market has been very strong in certain cities in Canada. What are some of the recent changes to address this?**

**Myers, British Columbia:** British Columbia has announced measures to address housing affordability in the Province, including $855m of new investment since Budget 2016 to increase the supply of affordable rental units, as well as strengthening oversight and accountability of the real estate profession. Self-regulation has been ended, fines for professional misconduct have been increased and new rules have been implemented to address issues created by contract reassignments. There have also been several property transfer tax changes, the most high-profile being a 15% additional property transfer tax for foreign buyers of properties in the Metro Vancouver region.

**David Ayre**
Canada Mortgage and Housing Corporation

**David Ayre, CMHC:** CMHC has been doing a lot of work on this. We started publishing the Housing Market Assessment and it looks at the 15 largest metropolitan areas in Canada, and at different factors to try to come up with an overall picture of the housing market — everything from price acceleration, overvaluation, overbuilding and overheating. In October we released our first ever 'red' assessment, which indicates strong evidence of problematic conditions for Canada as a whole.

Most of the headlines around housing are Toronto/Vancouver driven or focus on our oil-dependent provinces. If you look at Toronto as a whole and Vancouver as a whole, historically a lot of the pressure was concentrated in the core of the cities. Now it's starting to expand. So in Toronto for instance, you're starting to see a price increase in areas like Barrie which is not consistent with underlying economic fundamentals of these areas.

The HMA serves as an early warning system, alerting Canadians to areas of concern. Despite the 'red' assessment, arrears in Canada are still near all-time lows and CMHC's arrears rate has remained stable at 0.32%. CMHC has always collected a lot of housing information but it hasn't always been made public. In recent years, we've been making more of this information public which, ideally will help stakeholders make more informed decisions.

Recently, the Minister of Finance introduced new parameters for insured mortgages in Canada. This follows a series of macro-prudential decisions to help reduce risk in the mortgage market. One element of the changes is a stress testing component for homebuyers, requiring them to be qualified against a higher rate. Lenders are now required to qualify homebuyers using the Bank of Canada posted rate, typically about 200bp higher than the contract rate, to be eligible for mortgage loan insurance. This factors in people's ability to cope in the event of rising rates and reduces some inflationary pressures on house prices as a result of historically low mortgage rates.

**Wu, Department of Finance:** A federal, provincial and municipal working group has been discussing housing issues, and ideas to address affordability and potential vulnerabilities. A number of federal measures have been taken.

Additionally, the Office of the Superintendent of Financial Institutions has been looking at what might be a more appropriate, potentially higher level of capital for both mortgage lenders and mortgage insurers. The BC government instituted a 15% tax on home purchases by foreign buyers, and the city of Vancouver announced a new tax on vacant homes. In Ontario, to address affordability, they have announced a first time home buyer's tax credit.

**GlobalCapital: What are Canada's prospects for international trade?**

**Chandler, RBC CM:** There's obvious risk in terms of US policies. That will be most important for Canada. But it's happening in the context of a sharp slowing in world trade growth anyway, so we've been dealing with that over the last couple of years.

**Wu, Department of Finance:** Canada is a small, open economy. The government has been focused on trade and signing new trade agreements. The Canada European Union comprehensive economic and trade agreement (CETA) has been signed and it is expected that it will be provisionally applied in the first half of 2017. We expect this to provide significant benefits.

**Susan Love, EDC:** Canada and the US are highly integrated in terms of trade. So although we've heard from Trump that he may rip up Nafta, he usually follows this with a statement that the US needs to negotiate a new free trade deal. There would be pressure from many sides in the US: Congress, the Senate, business associations and State governments not to cause any disruption to the basic integration that we have in trade. Canada is the top export market for the US — 40 of the states rank Canada as their number one or number two export market. So clearly it's important to Canada and to the US. Given the positive effect on both economies, Canada-US trade should continue to grow.

**GlobalCapital: How do investors' concerns with liquidity in the secondary market affect the way you approach your funding programmes?**

**Myers, British Columbia:** Domestic investors are demanding more liquidity in benchmark issues and are prepared to pay more for them.

BC is the only provincial credit in the country issuing at levels through Ontario, even though Alberta, Saskatchewan and Manitoba also have a higher credit rating than Ontario.

The impact of domestic investors' demand for liquidity is clearly reflected in the fact that BC does not realise the same relative value in the domestic markets that we receive in offshore markets for our AAA credit rating.

BC focuses on building big liquid domestic benchmark issues by re-opening bond issues until the dating becomes too stale or the outstanding issue size becomes too big for our debt profile. Privately placed deals (MTNs) have all but vanished.

Given the Province's relatively modest borrowing programme and the liquidity challenges which this poses in the domestic secondary market, it continues to make sense to access offshore markets, as cost-effective financing. This helps to diversify borrowing sources and improve on domestic, secondary market performance. In this fiscal year to date, the Province has borrowed 57% of its requirement offshore.

**Devine, Ontario:** From Ontario's perspective, the secondary liquidity in our bonds is extremely important to us, and we've taken measures over the last couple of years to foster an active secondary market. We've implemented a client survey in our syndicate evaluation. Investors have the opportunity to rank their counterparties, and that dictates the commission we pay.

We also collect our own trade data, because there are some irregularities in the reported statistics. We are taking a qualitative approach, as opposed to a sheer numerical approach. That allows us to reward dealers for making active secondary markets in our name. That is the number one criterion for how dealers are compensated.

**Alex Caridia, RBC CM:** Investors are gravitating towards the most liquid currencies, and the most liquid lines. A lot of issuers are implementing similar types of secondary market surveys and tracking mechanisms for liquidity. The Canadian market is incredibly liquid in terms of bid/offer spreads and turnover volumes vis-à-vis many other markets.

**Love, EDC:** The Volcker rule has had unintended consequences in terms of a reduction in liquidity, which has undermined investor confidence. We've not heard of a situation where investors haven't been able to find a home for EDC's bonds if they want to sell. However, investors know that EDC will create the market if it isn't there and will buy back their bonds. That gives investors the extra reassurance, that if there is an issue with liquidity, EDC will be there for them.

**Guillaume Pichard**
Quebec

**Pichard, Quebec:** We focus on building large benchmarks, so the secondary market is always healthy. Our 10 year benchmark line has to have at least C$6bn outstanding and our 30 year benchmark C$10bn before we close them. We want to be as transparent as we can be to the market, so investors know what to expect. We are also directly involved in the secondary market through our sinking fund. Dealers know that they can count on the sinking fund to provide liquidity if necessary.

**Thompson, Alberta:** In the past two years, we have transitioned to a large issuer in Canada, and we've deliberately structured the programme in such a way as to promote liquidity within the Canadian marketplace. Two years ago, we set out on this programme and met a lot of investors and their dealer partners. We committed that we would not issue off the run in Canada, and that we would focus only on benchmark issues, allowing us to grow them to a size that promotes secondary trading. We have kept on that path, growing five, 10 and 30 year benchmarks to between C$3bn and C$5bn.

About 80% of the debt we issue over the next three to five years will be new debt stock. Our turnover is not going to start for another three or four years. It's very important that those stocks build in a liquid manner. We are not in a position to support the secondary market ourselves, but we have had very good support from the dealer community on that front, and it is a syndicate criteria for participation in our issues that they provide secondary support. We do track that very closely, through third party sources, and more directly with investors.

**Steski, Manitoba:** Investors have indicated a preference for larger benchmark size issues and we changed our funding pattern accordingly, not using our MTN programmes as much and building larger benchmark issues, certainly in the domestic market.

**Ayre, CMHC:** On the CMB side, we hit the peak in terms of low liquidity in 2015. In 2015, we were hearing from investors that liquidity wasn't what it used to be. We also heard that the perceived reduction of liquidity in CMB was comparable to declines in other Canadian bonds. As a result, we reiterated the importance of liquidity with the 11 dealers in our syndicate.
Our trading stats in 2016 seem to have stabilized and the investor feedback has improved.

**GlobalCapital: What are the key questions that come up when you're meeting investors outside Canada?**

**Love, EDC:** Questions centre around our new government and our new prime minister, Justin Trudeau. Outside Canada, Trudeau is viewed as having a more socialist approach, introducing more programmes for people with lower incomes and those requiring services such as childcare. He's also regarded as someone with a more environmentally focused agenda.

I was in Asia before the US elections and the concern was over who would be in power in the US. Now we know it's Trump of course, but we're still being asked a lot of questions on about this. The other question is about rising household debt in Canada. Investors are interested in the steps the government is taking to address this problem.

Oil and the outlook for the price of oil cause concern too. Canada has fared well, having gone through a period with very low oil prices, so we can answer with confidence that we should be in good shape as price stability hopefully returns.

**Mark Chandler**
RBC Capital Markets

**Chandler, RBC CM:** Investors are focusing on the fiscal stimulus that Canada is providing. We've had a little advertisement on that front, with the IMF putting Canada forward as a poster child for fiscal stimulus. We get asked a lot of questions: Is it working? Will it spread to other countries? Why has it been successful in Canada?

**Wu, Department of Finance:** We have received a lot of questions about the Canada Infrastructure Bank. It's clear our government believes in fiscal stimulus. We're pleased to see the US and UK are looking at infrastructure investment as well.

We have increased investment in infrastructure to C$180bn over the next 12 years. The creation of the Canada Infrastructure Bank is a key part of that.

**Thompson, Alberta:** We have our own capital infrastructure programme that we launched two years ago. It's a C$35bn spend over about five years, addressing traditional government infrastructure deficits: schools, hospitals, roads.

**Pichard, Quebec:** For Québec, since we balanced the budget, investors have been asking how we managed to do so. It wasn't done overnight, a lot of work was put into controlling our expenses and to lowering our debt burden with the Generations Fund. We do get a lot of questions on how the Generations Fund works since it is unique in Canada. Investors like that its unique purpose is to reduce debt. They also like and where we are headed fiscally.

**GlobalCapital: The domestic new issue process in Canada is unique because of its one-day execution. Does that make it difficult to get international investors participating?**

**Belanger, RBC CM:** We were in Asia recently and this topic came up in a number of investor meetings. If you're in a different timezone it's difficult to participate in our domestic markets. It's different from a US dollar global deal, where you launch one day and price the next. That gives international investors an opportunity to look at the transaction. In our market, the deals come quickly. They are bought deals, launched by the syndicate, already priced. So domestic investors tend to indicate to dealers what their interest would be in upcoming deals. It works well for issuers, as they have comfort that the demand is out there for a certain term and can execute the deals quickly, but it is difficult for international investors to participate.

**Ayre, CMHC:** CMB has an approximately C$40bn a year programme with over C$200bn outstanding, so we're doing big issues. We need to give investors the chance to see it so we use a typical global style 24 hour window which allows international investors to participate. Roughly a third of our participation is outside Canada, so it's very important. We did make an important improvement to our programme this year, introducing flexibility to the size of a deal. Historically, we would set the price at launch but now we launch with "benchmark size" language which gives us the opportunity to better right-size our deals to reflect the book of interest. This has worked well for us and we're ahead on our funding year-over-year, and it hasn't come at the expense of our spreads.

**Caridia, RBC CM:** Yes, Canadian deals are all priced very quickly, which makes it challenging for offshore investors to participate. We have seen significant demand from Asian investors, on the back of some economies there being in a very low rate environment and the time difference can cause a real issue when trying to accommodate that demand.

**Alex Caridia**
RBC Capital Markets

**Belanger, RBC CM:** The absence of a bookbuild has also led to the development of what we call the carve-out process, or large order protocol. An investor that wants to buy a very large amount of bonds in primary would have to go to a number of dealers. But Ontario pioneered a process where an investor can go to the province and say: "I want to buy a large portion of a new issue." It's worked well. In 2016, we've seen 36 carve-out orders, for a total of C$9.4bn, about 17% of total issuance. It's a very significant part of the market.

**Devine, Ontario:** I don't know if we pioneered it. Quebec started it, but we enhanced it for our own use. Everyone has a different approach to the large order process, but it's been very successful. Large accounts had complained to us that they were having difficulty in accumulating large positions. Our response came as a direct impact of reverse inquiries from large investors. We have thresholds that we adhere to to accommodate extremely large accounts and their needs. We wanted to be fair to all investors, ensuring that large and small accounts had liquidity, we implemented a minimum free float protocol, establishing that there is sufficient free float, allowing everybody to participate in a new bond issue. That avoids giving preferential treatment to large investors.

**Pichard, Quebec:** I agree. It's been great for Asian investors and large accounts to get access to our market. On the other hand, there are smaller domestic players that have been buying deal after deal of our new issues for years now and you don't want to hurt them by affecting their access to our bonds. You have to be fair to every investor, large or small.

**Thompson:** True. We've built on what Ontario and Quebec pioneered and perfected it for our own system. We've been working hard to promote liquidity so we were wary of turning it into a MTN process of some sort, where there is no flow to the market. We restricted the process to half of any deal, ensuring that we do have a free flow to the market.

Going from a small issuer to a large issuer, this process has allowed us to hit some very large transactions that we would not have been able to do otherwise. Going from a C$200m deal to writing a C$1bn issue has been much easier because we can take in C$500m of large orders.

It's also given us much more direct contact with our investor base. Accommodating these large orders has given us some great insights into what these investors are looking for, which has been very helpful in managing the transition to being a larger issuer.

**Myers, British Columbia:** Some international investors have explained that by the time they had heard of a bond deal in Canada, it was often sold out. However, this was probably more of an issue in the past. Now the process of bringing a new issue to market has changed so much that rumours of impending issuance and "shadow bookbuilding" play a very large part. This does give international investors much more of a "heads up" that an issuer may be interested in coming to market. To take advantage, international investors should stay engaged with domestic dealers about rumours of impending new issues and be willing to put in a standing order for a certain amount of bonds for when their desired bond issuer comes to market.

**GlobalCapital: How is the Canada brand perceived internationally?**

**James Wu**
Department of Finance

**Wu, Department of Finance:** The Canadian brand continues to be seen very positively by international investors. We have the lowest debt to GDP of the G7 countries, we are well known for prudent fiscal management, having sound debt management as well, and there is a stable political environment. In addition, we have a resilient financial system, and the World Economic Forum continues to recognise our banking and financial system as being the soundest in the world. So the Canada story continues to be very compelling. That's reflected in our AAA sovereign credit rating. International investors are also very supportive of the government's fiscal stimulus plan, seeing it as a very positive sign. Yes there will be a slight uptick in the debt to GDP ratio, but the view is that overall this will be positive and yield economic growth.

**Myers, British Columbia:** With the number of triple-A credits globally being significantly fewer than pre-crisis and continuing to decrease, Canada continues to derive benefit from its triple-A rating by international investors. British Columbia also benefits from its triple-A credit rating with investors viewing the Province as a safe, stable credit that offers an additional yield pick-up relative to Government of Canada securities. With rates being negative for many securities around the world, the positive yield that British Columbia's and Canada's bonds offer is appealing to many international investors.

**GlobalCapital: How has the prospect of US Federal Reserve rate hikes affected your borrowing programmes?**

**Steski, Manitoba:** US dollar issuance continues to be a big part of our programme. For us, international financing must be cost-effective relative to our domestic costs. As long as the Fed hikes don't impact our ability to swap it back into Canadian dollars at cost-effective rates, we will continue to make use of the market.

**Jigme Shingsar**
RBC Capital Markets

**Jigme Shingsar, RBC CM:** The US dollar market has always been an important source of liquidity and diversification for the issuer base here, and that will continue to be the case. The key point is extracting relative value for your borrowing programmes. Whether you see it as pure diversification or as cost-effective diversification, both come into play depending on what's happening in the domestic market.

**Love, EDC:** To the extent that investors think that US rates will continue to go up, we may see more demand for floating rate notes. As a result, this may mean that a larger portion of our funding programme will be done through floating rate issuance.

**Thompson, Alberta:** We have declared dollars a core currency for our programme. We're a fully SEC registered issuer now. We're hoping to issue 30%-40% in foreign currency and that will primarily be in US dollars. To the extent that higher rates in the US affect arbitrage, we'll assess where we land in that 30%-40% range. Effectively swapping back to Canada is fine. The feedback indicates that offshore borrowers are more yield-sensitive than in Canada, so higher yields in dollars that swap back to effective Canadian prices are actually a good thing. As long as we come back to something similar to our domestic cost of funds, we'll happily pay whatever yield environment we find ourselves in on the other side.

**Myers: British Columbia:** If the Fed were to hike more or faster than expected and throw the bond market into turmoil as witnessed in 1994, this would obviously have an effect on our ability to launch bond issues into the US dollar market. But Fed hikes themselves should have little effect. Further, the Province's established access to capital markets outside of the US dollar market is a strong mitigant to ensure it is able to finance its essential programmes in the face of US dollar market disruption.

With interest rates so low, our preference has been for longer term funds (10 years and beyond) for several years now. This isn't likely to change any time soon, even with Fed hikes on the horizon. Interest rates remain very attractive.

**Wu, Department of Finance:** We issue in US dollars to acquire foreign currency reserves, not for domestic funding needs. Hikes in the Fed rate could affect the valuation of our reserves. We like to maintain approximately 70% in US dollars, so we may need to transact to achieve that.

However, we fund our foreign reserves primarily through cross-currency swaps, because this is where we have a cost advantage. As such, we help to provide offsetting flows for provincial issuances coming back to Canadian dollars.

**Pichard, Quebec:** The US market is always going to be a very important core market for Quebec. It stands at 50% of all our international debt outstanding. We are committed to staying in the market, regardless of interest rates. So investors can expect to see our name with our typical Quebec 10 year fixed deal, but we can also issue in other maturities, perhaps five years.

Regarding FRNs, as Sue touched on, we have told investors to expect a new Quebec FRN line every 12-18 months.

**Belanger, RBC CM:** In 2016, 26% of total provincial issuance has been in offshore markets and that's higher than the average of around 20% for the last five years. Around 80% of that is in US dollars so it's obviously a very significant source of funds for the provinces.

**GlobalCapital: How has the quantitative easing programme of the ECB affected borrowing activities in euros?**

**Caridia, RBC CM:** It's impossible to overestimate how big the impact of QE has been. We have seen lower issuance volumes in euros — in particular at the front end. However, this has created an opportunity for provincial euro issuance in private placement format as investors have been hunting for yield.

Investors have been able to enhance their return by diversifying into long dated private placements issued by provinces versus what they can achieve in European government bonds.

**Susan Love**
Export Development Canada

**Love, EDC:** It's interesting you say that because in the last few years we've issued several shorter dated euro private placements. We're seeing demand in the six and seven year area. We have never issued into the euro public markets as our euro needs have not been large enough for us to become a regular issuer.

**Caridia, RBC CM:** More European investors have been pushed into the dollar bloc. Mostly, that's been US dollars, but Canadian dollars too. That's created issuance opportunities for some of the provinces. Euro holdings for European asset managers have really fallen off a cliff in the last six months. Their dollar holdings have gone the other way.

**Pichard, Quebec:** We want to be more engaged in public issues but investors are telling us that they're looking for longer dated maturities to get a pick-up in yield. It's quite hard for a province to execute a long dated public issue. Nonetheless, we remain committed to the euro market.

**Devine, Ontario:** QE has caused a reach for yield. Investors have moved down the credit spectrum and out in the yield curve. The combination provides opportunities for Canadian provinces, which offer a yield pick-up relative to those eligible for purchase by the ECB.

Large benchmark issues are strategically important for borrowers committed to the market. However, the challenge is swapping the proceeds back in highly illiquid parts of the curve. Many of us struggle to manage that and it's the biggest obstacle preventing us accessing the market as frequently as we might like to.

**Myers, British Columbia:** Very low, even negative, rates in Europe, which are at least partly a result of the ECB's quantitative easing programme, have led to a search for yield by investors. British Columbia bonds fit the bill for these investors in that the yields on our issues remain positive and are relatively high compared to some other AAA/Aaa rated alternatives. So we are seeing good demand for British Columbia product out of Europe.

**Steski, Manitoba:** We've had good success in euros this year. We've done a total of four deals, the largest being around €200m and the smallest around €35m. We see regular reverse enquiries for these deals. Again, as long as we can continue to swap back into Canadian dollars at cost-effective rates we will continue with issuing in various currencies.

**Wu, Department of Finance:** The US dollar and euro are important currencies for the Government of Canada's liquid foreign reserves, but we haven't done any direct issuance for a little while. It remains a possibility, but we focus more on cross-currency swap funding.

**GlobalCapital: Has the relatively stable political system led to increased foreign demand?**

**Love, EDC:** Investors view Canada as fiscally responsible with a strong, conservative banking system, which is a good thing. We continue to see lots of demand from foreigners for the Canada name. For EDC, it's been particularly helpful that we can issue in US dollars as that gives investors access to the Canada credit in another currency.

**Shingsar, RBC CM:** If we consider the few question marks on Canada — one would be real estate prices and there are steps being taken to address it. The other would be the impact of falling commodity prices shock which now feels like last year's question. Then, to the extent continued economic growth was in question, the government has announced significant fiscal stimulus to address that. So Canada remains a great story.

**Chandler, RBC CM:** Total foreign investment in bonds from Canadian issuers has been running around C$90bn in the last 12 months, approaching the peaks of 2010 and 2013. We started with a fairly low stock of foreign ownership in terms of our federal and provincial government debt but it's around a third of outstanding debt now.

**Love, EDC:** While we've committed to issuing regularly in the US, Australian, sterling and New Zealand markets, we also issue in a number of other currencies. This certainly reinforces to me the confidence that foreign investors have in Canada, given how keen they are to buy the Canadian name, regardless of currency.

**Ayre, CMHC:** Our programme is in Canadian dollars only, but we have seen strong foreign demand every year. International distribution tends to be around a third of our total distribution, but the number of international investors has been increasing which tells me that investors are comfortable with our political system. There are also more central banks participating in CMB as part of their foreign currency reserve investments in Canadian dollars.

**Love, EDC:** The other market that has opened up even more of late is China. Over the last few years, we've issued a number of Dim Sum bonds, and recently there's been more demand for us to issue an onshore Panda Bond.

**GlobalCapital: What other foreign currency opportunities are you looking into?**

**Steski, Manitoba:** We've had some success with Japanese yen, Hong Kong dollars and Aussie dollars in 2016, in addition to the euro and US dollar financing.

Our programme was about 40% funded in international markets this year. That's one of the largest shares of international financing we've ever done.

**Myers, British Columbia:** We have seen some opportunities in Australian dollars which, although modest in size, have provided cost-effective funding. We have also recently issued an Indian rupee denominated Masala bond in the Indian offshore market, the first foreign government to access this market.

This followed a provincial bond issue in the domestic China Panda bond market in early 2016; this bond market is the third largest in the world and holds promise for government issuers in the future. There could be further opportunities in the China Panda bond market as well as other opportunities in Swiss francs, Hong Kong dollars and Norwegian kroner. We are always following all major currencies (and some minor ones).

**Caridia, RBC CM:** Canada is the bright spot internationally. Most other international public sector borrowers have dramatically reduced the range of currencies in which they're active. Investors have gravitated towards liquidity. The dynamic in Canada has been the opposite, with provincial issuers having opportunities to issue in a broader range of currencies than before.

**Thompson, Alberta:** We've definitely added capacity. The SEC registration and our Australian dollar programme came online this year. We maintain an EMTN shelf. We haven't printed much outside of Australian dollars, euros and US dollars. But we entertain Norwegian kroner, Hong Kong dollars, yen. We're perfectly willing to write anything in any currency as long as it's cost-effective and gives us access to a new investor base.

**Love, EDC:** EDC recently did a Masala loan, the first done by any international bank. Ideally, we like to fund in the currency we're disbursing, so as the market in India continues to open up, a Masala bond would be a possibility for us in the future.

**GlobalCapital: What are your ambitions for green bonds?**

**Love, EDC:** We issued our first green bond in 2014. It was a three year, so it's maturing in January. There is a growing appetite for this product from investors and EDC is committed to being a regular issuer. We issued our second green bond in 2015. We weren't able to issue one in 2016 but we aim to return to the market in 2017.

The first two bonds were US$300m, but recent feedback from investors suggests that they want larger deals to improve liquidity. As a result, we will increase the size of our next bond to US$500m, which will ensure that it is index eligible and will provide investors with more liquidity.

**Devine, Ontario:** We have issued two green bonds, starting two years ago. Our last green bond was at C$750m. I would anticipate that we will probably be launching our third in the first quarter of 2017. It will likely be issued under global bond format, as with our last two. Because we use the traditional global two-day execution, it is one of the very few opportunities for people in different time zones to participate in a quasi-domestic offering.

**Belanger, RBC CM:** There has been C$3.2bn issued in green bonds since 2014, with $1.25bn in 2016, including the C$750m from Ontario that Jim mentioned and C$500m from EIB.
We have been trying to promote the green bond space in Canada, since our first Canadian green bond conference in 2014. We had our third conference this year. We've conducted some investor relations work around green bonds with Ontario recently. Although Canada has been slower to develop than some other jurisdictions, we're beginning to see a pick-up.

**Myers, British Columbia:** Over the past five years, we have seen evidence of increasing interest from international SRI investors in green bonds. These investors generally have US dollars and euro mandates and routinely inquire of British Columbia's plans for green bond issuance. At this time, we see far fewer Canadian investors with green mandates.

The challenge is whether there is sufficient Canadian dollar investor demand to sustain a core green bond programme across the maturity spectrum which has sufficient liquidity to support competitive secondary market performance. At this time, the Canadian market for green bonds is not as broad and deep as would be needed to support a core, standalone funding programme. That may change in time and British Columbia is keeping a close vigil.

**Pichard, Quebec:** Quebec has been looking at this for quite a while now. I think 2017 might be the year that we'll have the green light to go ahead. It is a lot of work and we won't get a pick-up in price for it, but we'll be ready, perhaps as soon as the first quarter. Again, we'll use a global format to give investors around the world a chance to participate. We'll issue first in Canadian dollars but we'll use a global format to give investors around the world a chance to participate.

We have been hearing from Canadian investors that have set up green funds internally that want us to participate.

**Love, EDC:** Well, to encourage you Guillaume, given all the work you've done, EDC saw central bank participation in our second green bond, something we didn't see in our first bond. I think we're starting to see the follow-through on commitments that countries have made in terms of addressing environmental issues and climate change. It's a very encouraging development.

**James Devine**
Ontario Financing Authority

**Devine, Ontario:** That isn't the target audience though.

**Love, EDC:** Well, not originally but countries are looking at green bonds as a way to address issues such as climate change and this really reinforces their commitment. As an example, when Canada released its budget earlier this year, they referenced EDC's green bond programme as a vehicle they are using in support of their climate change initiatives.

**Caridia, RBC CM:** Poland recently announced plans to issue the first sovereign green bond.

**Wu, Department of Finance:** Our government has committed C$21.9bn of investment in green infrastructure over the next 11 years. The development of the green bond market is a very positive step for Canada's financial markets. We look forward to seeing how France or Poland performs as the first sovereign green bond issuer.

**Thompson, Alberta:** The Alberta government has been very active in acknowledging climate change. We moved ahead of the federal government in terms of imposing a carbon tax and with coal targets. As a treasurer however, I remain unconvinced that the structure of the financing of those projects is really key to their implementation. I don't think you will see a green bond programme from Alberta in the near future.

**Pichard, Quebec:** In the short and medium term, it will be hard to make green bonds a core part of our funding in Quebec. Our borrowing programme will average over C$15bn, so it will be a challenge to find pure green play projects every year that can represent a core part of it. We don't want to do just one. We want to make a programme out of it and be a regular issuer.

**Love, EDC:** I agree, but each investor makes his or her own decision in terms of what they are interested in buying. One investor may only want something that is pure green while another will accept something that's not as green but has an environmental benefit providing incremental improvement. There is a wide range of investors and assets.

**Shingsar, RBC CM:** We see SRI demand growing, perhaps not at the pace we'd like, but it is growing, and it will naturally evolve to the point where there is a distinct market for SRI product.

**Love, EDC:** China is a huge market that's made a commitment to investing in green initiatives. It's like any new product. It takes time to develop. It takes a lot of work to set up a programme, but we are seeing more and more demand from investors. That's evidenced by the increase in total green issuance from year to year as well as the demand from investors for an increase in the size of bonds.

**GlobalCapital: What are the biggest risks of 2017?**

**Chandler, RBC CM:** The housing sector, even if we don't have systemic concerns, could spill over into the consumer sector. Those two have contributed a lot to growth over the last five years. We expect a reduced role for the consumer. Residential construction is a net drag on growth next year of 0.4%. That's a big change.

**Shingsar, RBC CM:** The biggest risks are events that aren't in the calendar. I'm more concerned with global geopolitical risks that create excess volatility than I am with any US or Canada domestic issues.

**Garry Steski**
Province of Manitoba

**Steski, Manitoba:** Regular access is our biggest concern. We've continued to see periods this year where we haven't been able to access the domestic markets for weeks at a time. We managed to get the funding done, thanks to the amount of international financing we have been able to do. The other concern is since November, we've had a big bump in rates and it's not clear how far that's going to go or what the effects will be.

**Pichard, Quebec:** After Brexit, Trump and the referendum in Italy, a global wave of protectionism is a serious risk. Talks of Nafta being renegotiated or repealed have the potential to cause consumer confidence to falter. Quebec has a very open economy, more than 45% of our GDP is from trade so if borders and tariffs are going up, the Canadian economy and Quebec's economy won't be immune to it.

**Belanger, RBC CM:** We've seen slow growth globally over the last few years and it doesn't seem to be improving. The US is a bright spot, but a lot of positive expectation has been built in, and greater protectionism on top of that will not make for a positive story. It's tough to see an opportunity for central banks to start unwinding some of the QE programmes.

**Love, EDC:** I also worry about an economic crisis in China. The Communist party has the difficult goal of balancing short term growth with the medium to long term transformation of the economy. The government is continuing to use fiscal and monetary measures to try to stimulate growth. This may pose a risk to the financial sector. If there is a crisis in China this would have a huge impact on growth globally.

**Wu, Department of Finance:** I agree that China's economic growth rebalancing has the potential to impact markets and global growth. Trade negotiations with the EU and the US also have the potential to produce outcomes that we have to prepare for.

The Bank of Canada has held short term rates tight, the longer term portion of the yield curve has seen rate increases. If there's a further increase in global risk premium on top of the recent upward adjustment to inflation expectations, those higher rates will pass through to the household sector.

Another potential risk would be the impact of prolonged weakness in commodity prices.

**Thompson, Alberta:** We are still an energy play. The government has a mandate to diversify Alberta's economy but it's a slow ship to turn. We live and die by the oil price. Stability is good. Growth would be better.

We are very concentrated in our risk so it comes down to oil. Is Trump pipeline friendly? We seem to have more federal government support than in the past for pipelines so that is a positive.

**Ayre, CMHC:** The housing market is obviously a big focus for our organisation. There's a strong positive correlation between the unemployment rate and mortgage defaults so naturally we watch employment levels closely. We've been doing significant stress testing and looking at extreme scenarios which include high unemployment rates and CMHC has sufficient capital to withstand these.

**Caridia, RBC CM:** The key risk is political. We've got through some big events in 2016: Brexit, Trump, Italy, and the markets have reacted fairly benignly but there are a couple of key elections coming up in Europe. The Netherlands has a far right party leading the polls. France has Le Pen, and Germany has elections in the fall next year. I worry to what extent that will have a negative effect on the markets — any perceived threat to the eurozone could shut markets down.

**Devine, Ontario:** In addition to all the macroeconomic events, there are some regulatory capital changes or changes in the banking sector, things that affect us on a day to day basis. These make it harder to bring foreign business into Canada. These are things that we'll have to plan for.

**Myers, British Columbia:** Risks to British Columbia's economic outlook largely relate to external and trade factors. Risks include: the potential for a slowdown in the Canadian economy; any renewed economic weakness in the US or re-emergence of trade barriers; slower than anticipated growth in Asian economies; weaker inflation pressures or exchange rate uncertainties; and, economic and financial system challenges in European nations. ▲

RBC Capital Markets

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