

The taper begins

The Bank of Canada (“BoC”) purchases Government of Canada bonds to support market functioning and provide monetary stimulus. The Government of Canada Bond Purchase Program (“GBPP”) was established to address strains in the bond market and to enhance the effectiveness of other actions taken to support core funding markets. When market conditions improve, the focus of the GBPP shifts to support the resumption of growth in output and employment.

The BoC holds in excess of 35% of all outstanding Government of Canada (“GoC”) bonds – compared to its counterpart, the Federal Reserve in the U.S., which holds less than 18% of all outstanding U.S. Treasury securities. On April 21, 2021, the Bank of Canada announced that it would reduce the amount of GoC bonds it acquires by 25%, from C\$4 billion to C\$3 billion per week. This reduced purchasing program started on April 26, 2021. In pulling back from its support of the Canadian economy, the BoC will be the first of the Group of Seven central banks to take this sort of action.

Total assets held by the BoC declined 13% during April as the unwinding of credit facilities took hold. The largest remaining categories are the term repos and the short-term treasury bills. As they mature, the BoC gets its money back, but does not replace



those securities; thus, the balance declines. The remaining asset categories, such as mortgage-backed securities, corporate bonds, commercial paper, etc., have mostly been unwound or are less significant in amount.

Fewer buyers of bonds mean more supply for the open market and could potentially have the effect of lowering prices, pushing yields upward if the rate of absorption is insufficient to take up the slack created by the BoC’s withdrawal from the GBPP. A staged approach will allow the BoC to monitor the uncertainty surrounding the timing of further reductions in its bond-buying program, allowing it to assess the supply and demand outcome along with the effect.

Fiscal snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
April 2021	0.50	2.45
March 2021	0.50	2.45
April 2020	0.50	3.95

Government of Canada benchmark bond yields

	5-Year	10-Year	Long
April 2021	0.93	1.54	2.08
March 2021	0.99	1.55	1.97
April 2020	0.38	0.54	1.12

Indicative commercial mortgage spreads* Over Government of Canada bond yields

Conventional	5-Year	10-Year
April 2021	1.40 - 2.00	1.60 - 2.00
April 2020	1.70 - 2.20	1.80 - 2.25
Insured	5-Year	10-Year
April 2021	0.95 - 1.20	0.95 - 1.20
April 2020	0.95 - 1.20	0.95 - 1.20

*Spreads are indicative of high quality real estate in major Canadian markets. Source(s): Bank of Canada

Highlighted transaction

Asset type	Suburban Office
Location	Major Canadian city
Facility details	A first mortgage in the amount of \$50.4M was secured for construction of an office project, for a term of two years at a competitive rate of interest.

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