

Contributors

David Cimon

Senior Economist, Financial Industry
Scotiabank Economics
416.933.1255
david.cimon@scotiabank.com

*With thanks for research support from:
Jaykumar Parmar*

When Will The Bank of Canada Resume Buying Bonds?

- **The BoC has indicated that it may resume government bond purchases for normal operations in late 2027 or 2028.** The BoC's stated goal is to have a GoC bond portfolio that is roughly equivalent in size to currency in circulation.
- **Under a projection of minimal currency growth, the BoC will need to replace the most of the \$8B, \$13B and \$35B of par value expiring in 2028, 2029 and 2030, respectively.** Relatively small values of Canada Mortgage Bonds and inflation-protected debt held by the BoC may lower these values slightly.
- **The duration of the BoC's holdings is currently longer than the GoC's general issuance profile.** Combining that with the large block of debt expiring in 2030, suggests that purchases beginning in 2028 may favour maturities in the 2032–2038 range.

Following their large-scale asset purchases during COVID-19, the BoC has been engaged in a multi-year effort to reduce the size of their balance sheet. Unlike some other central banks, the BoC has been letting bonds roll off their balance sheet at expiry, rather than actively selling bonds.

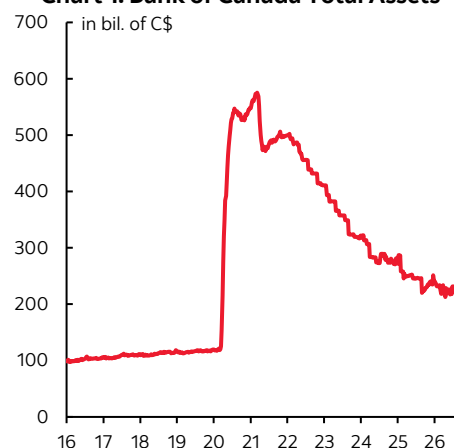
In recent remarks, BoC deputy governor Gravelle suggested that their purchases of bonds may resume in late 2027 or 2028. When it does so, the BoC's policy is to buy these bonds on the secondary market.

As a product of its actions during COVID-19, the BoC's balance sheet increased rapidly from a pre-pandemic size of just over \$100B, to a total of around \$575B near the start of 2021 (chart 1).

The BoC's stated goal is for their government bond holdings to be roughly equivalent to currency in circulation (chart 2), while their treasury bill holdings and repos should be equivalent to settlement balances (chart 3).

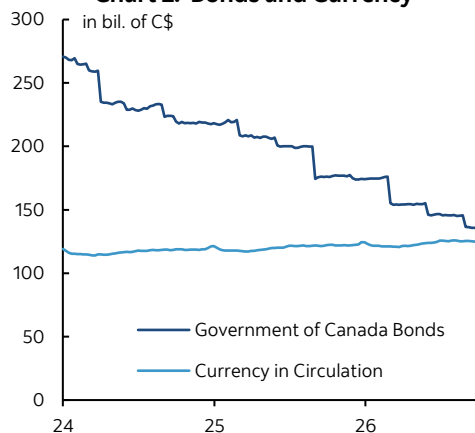
At this point, The BoC's bond holdings are approaching currency in circulation. While settlement balances remain above their stated goal of \$50B–\$70B, [I wrote a couple weeks ago](#) about how this is partly because of their use of term repos to smooth out deviations in CORRA, the benchmark repo rate.

Chart 1: Bank of Canada Total Assets



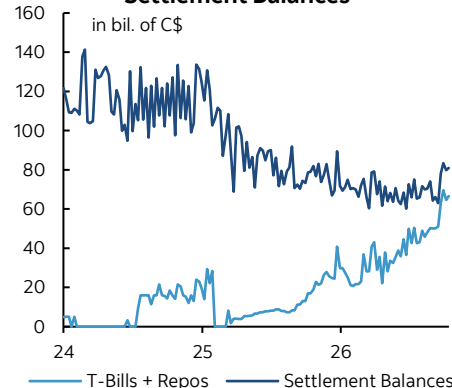
Sources: Scotiabank Economics, Bank of Canada.

Chart 2: Bonds and Currency



Sources: Scotiabank Economics, Bank of Canada.

Chart 3: T-Bills, Repos and Settlement Balances



Sources: Scotiabank Economics, Bank of Canada.

HOW MUCH WILL THEY NEED AND WHAT WILL THAT LOOK LIKE?

The ratio of nominal GDP to currency in circulation has been steadily increasing since 2022. This may be partially attributable to the increase in electronic payments or other changes in consumer habits. A simple linear projection of this ratio combined with current expectations of NGDP growth suggests currency growth to averages of \$127B and \$128B over 2027 and 2028, respectively (chart 4), lower than previous expectations.

The continued increase in the NGDP/CiC ratio may result in the BoC's bond portfolio falling below their currency outstanding later than prior estimates had predicted, which could push back their bond buying program.

Currently, the BoC holds \$136B in nominal GoC bonds. Table 1 shows the par value of expiring in each of the upcoming years. The roughly \$13B expiring in 2027 lines up with a late 2027 resumption. However, their additional holdings of Canada Mortgage Bonds (\$4.2B) and inflation-protected debt (\$4.4B) could push purchases to 2028 if they consider these alongside their nominal portfolio.

Table 1: Estimated Bank of Canada Nominal GoC Holdings Maturing by Year

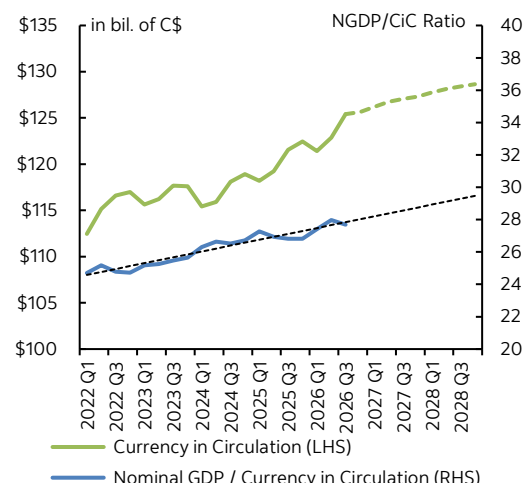
Year of Maturity	Par Value Maturing (\$M)
2027	\$13,182
2028	\$8,435
2029	\$12,800
2030	\$34,529
2031	\$14,505
2032	\$595
2033	\$5,100
2034 or later	\$53,157

Sources: Scotiabank Economics, Bank of Canada.

One item to note about their current portfolio is the large percentage due to expire in 2030, 24% of the current par value of their total nominal GoC portfolio. This is roughly equivalent to the total par expiring in 2027–2029 and much larger than the \$13.4B in nominal par expiring between 2032–2038.

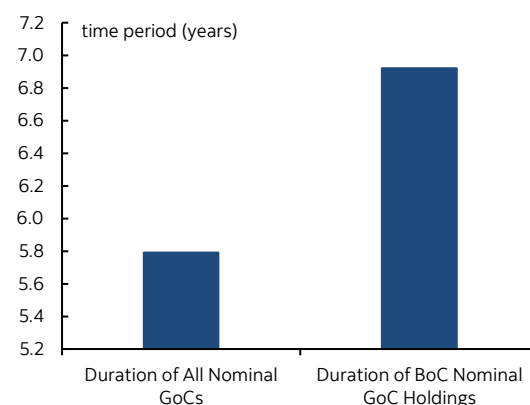
A second item is the duration of the BoC's bond portfolio. The Macaulay duration of the BoC's nominal GoC portfolio is slightly longer than that of total outstanding GoC issuance (chart 5). Whether that's the case one year from now is still to be seen. Given the recent preference of some governments for shorter maturities, it's possible that both the BoC holding and GoC issuance durations fall. In any case, given the current duration profile of the latest bonds (chart 6) purchases of 2s or 5s would decrease the BoC's total duration, while 10s and 30s would increase it.

Chart 4: Projected Growth of Currency in Circulation



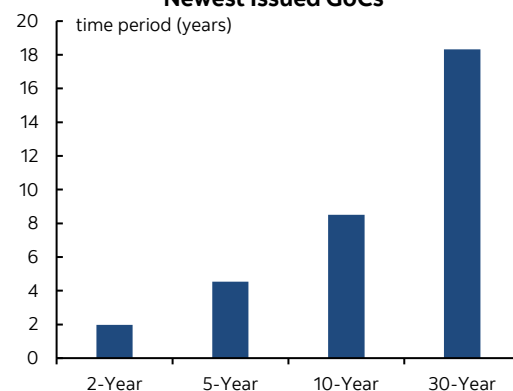
Sources: Scotiabank Economics, Statistics Canada, Bank of Canada.

Chart 5: BoC Vs. GoC Duration



Sources: Scotiabank Economics, Bank of Canada, Bloomberg.

Chart 6: Current Duration of Newest Issued GoCs



Sources: Scotiabank Economics, Bank of Canada, Bloomberg.

BOTTOM LINE

Under reasonable assumptions, Canadian currency in circulation will pass the BoC's remaining bond holdings in either late 2027 or 2028, depending on whether Canadian Mortgage Bonds and inflation-protected debt are included in the calculations. Not accounting for any unexpected changes in currency outstanding, the BoC will need to replace most of the \$8B, \$13B and \$35B of par value expiring in 2028, 2029 and 2030, respectively.

If the BoC begins purchases in 2028, it may be worth keeping a look out for the maturity structure of their outstanding holdings. Currently, their largest block of holdings is due to mature in 2030, followed by relatively small quantities in each year of the 2032–2038 window.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V, Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.