

Bank of Canada Starts to Unwind Crisis Measures

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

On Thursday, **the Bank of Canada announced it is terminating some of the market support programs put in place at the height of the crisis in March.** The Bankers' Acceptance Purchase Facility (BAPF) and **Canada Mortgage Bond Purchase Program (CMBP)** are both being discontinued with the final operations coming the week of October 26. In addition, the term repo operations are being cut to every other week (from weekly) and eligible collateral are being tightened as well to include only C\$ securities issued/guaranteed by the Government of Canada, Canadian provinces and those eligible for the Standing Liquidity Facility. Own-name covered bonds, own-name Term ABS and own-name ABCP will no longer be eligible.

The BAPF has had zero take up since May, leaving no market impact. Similarly the term repo operations have seen very limited usage, so there should be no impact here either.

The initial market reaction in CMBs on the back of the move was for spreads to widen 2-to-3 bps, though they ended the day 1.5 bps wider. We view the move as an overreaction to the announcement, as the program was buying very few bonds on a weekly basis. The initial program was announced as up to \$500mm/week in purchases, but we haven't been anywhere near that pace since June. Indeed, the program has been routinely buying under \$200mm/week (and a number of times under \$100mm) since July. Monthly purchases since have been under \$500mm since August, which hardly registers in this ~\$250 bln market.

The announcement comes as a bit of surprise as there was no hint of this coming, and so the knee-jerk reaction can be forgiven. The program hasn't seen significant use in recent months so the termination makes some sense. In addition, the housing market is absolutely on fire, so it's not as if it needs any more support. The post-announcement spread widening doesn't seem consistent with the marginal market impact the BoC was having. Taking it one step further, this begs the question of whether a similar fate awaits the Provincial Bond Purchase Program. Given the different dynamics, that seems unlikely. The provincial program is supporting the fiscal stance of the provinces which hasn't really changed. Indeed, if COVID restrictions are tightened further the fiscal picture could worsen, so the BoC likely wants to keep its options open here. If anything, the Bank could just choose to slow the purchases a bit rather than end the program. **The provincial program has an already announced end date of May 6, 2021. We suspect the BoC will stick to that schedule given the ongoing macro and fiscal uncertainty.**

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