

Q1

Review of Debt New Issues & Trading: Getting Off on a High

FIRST QUARTER 2006 HIGHLIGHTS
JUNE 2006

- Fixed income market kicked off 2006 on a high – trading and financing in lofty territory
- Debt trading soared to record \$1.7 trillion in the first quarter
- Total financings climbed to a near record high of \$43.7 billion in the quarter
- Corporate bond frenzy continued with a hefty \$22.0 billion in issuance in the period
- Government issuance ticked up in quarter, but broad trend remains down

Q1 2006

Summary of Debt Trading & New Issuance

Q1 2006 SUMMARY OF DEBT TRADING AND NEW ISSUANCE

	Q1 06 (\$ Billions)	QOQ % chg	YOY % chg	YTD % chg	2005/04 % chg
TOTAL					
Debt Trading	1713.7	15.3	19.9	19.9	14.6
Debt Issuance	43.7	13.9	8.6	8.6	-8.8
Government of Canada Bonds					
Trading	1515.0	16.3	17.6	17.6	13.6
Issuance	12.7	8.9	-21.7	-21.7	-13.7
Provincial Bonds					
Trading	152.7	6.1	45.0	45.0	26.0
Issuance	8.7	37.7	-3.4	-3.4	-24.8
Municipal Bonds					
Trading	2.8	-23.7	-3.8	-3.8	21.0
Issuance	0.3	-81.1	-6.6	-6.6	-6.4
Corporate Bonds					
Trading	43.3	20.4	30.4	30.4	16.5
Issuance	22.0	17.7	49.9	49.9	6.4

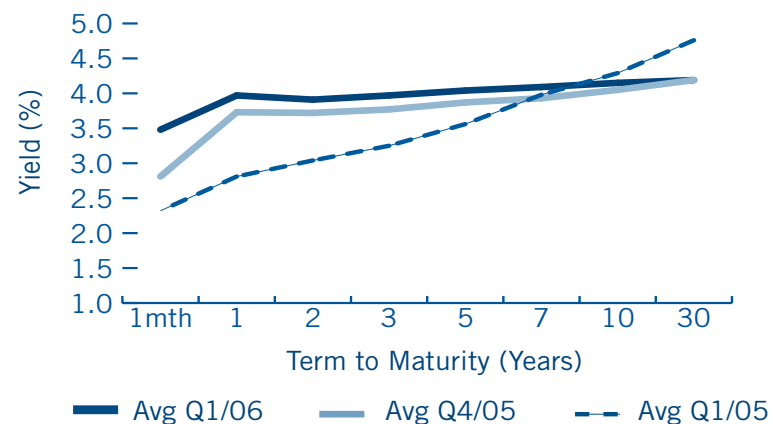
Note: QOQ = quarter-over-quarter YOY = year-over-year YTD = year-to-date

Q1 2006 Debt Markets: Getting Off on a High

After a spectacular performance in 2005, Canada's fixed income market kicked off 2006 with a rip-roaring start. On the financing front, total issuance soared to a hefty \$43.7 billion in the first quarter – an increase of 13.9 per cent from the fourth quarter last year and 8.6 per cent from the same period a year ago. On the trading front, activity zoomed to a record \$1.7 trillion in the first quarter, an increase of 15.3 per cent quarter-over-quarter and 19.9 per cent year-over-year. All in all, it was another amazing quarter!

The robust fixed income market in the quarter was certainly impressive given that it was fresh on the heels of another record year in 2005. Despite rising rates in the period, financings continued to accelerate. Why? Undoubtedly, the favourable rate environment has continued to provide a big boost for Canada's burgeoning debt market. Although the Bank of Canada delivered two widely anticipated 25 basis point increases in the period, the overnight rate was bumped up to just 3.75 per cent by the end of the first quarter – still relatively low compared to historical levels. While long yields were higher in the quarter, the rise was modest and not enough to put a big squeeze in borrowing – yet. Clearly, long yields still remained within the comfort zone of investors. On that note, Corporate Canada continued on its borrowing spree in the quarter.

**Canadian Yield to Maturity Curve
Quarterly Comparison**

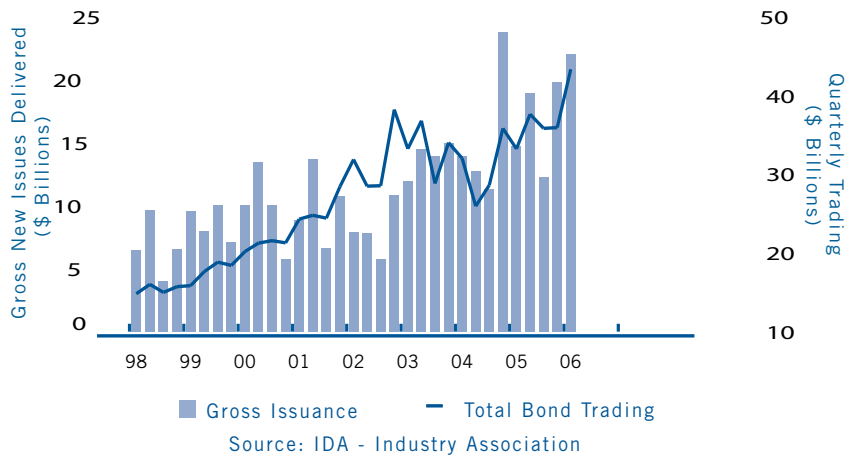


Note: Averages 3 end-of-month values for each quarter

Source: Bank of Canada

Looking out, whether financings are able to sustain this vigorous momentum in the months ahead will depend a lot upon the direction of interest rates. With the current overnight rate at 4.25 per cent in early June, the jury is still out on whether Bank of Canada Governor Dodge is nearing the end of the monetary tightening cycle. The recent batch of mixed economic data, high oil prices and a 28-year high Canadian dollar has certainly confounded the inflation and rate outlook. Nonetheless, the overall economy is still expected to be on an expansionary track during the balance of the year and debt financings in the coming quarters will likely only moderate – not tank – from current robust levels. Good news for the bond market.

Total Quarterly Corporate Bond Gross Issuance & Trading



– \$1 billion plus – last year also continued into 2006. In the first quarter, there were three high-end issues compared to a total of five for the whole of 2005! CIBC led the issuance pack with an impressive \$1.3 billion offering in the first quarter, followed by the \$1.1 billion issued by Golden Credit Card and a \$1 billion issue from the Toronto Dominion Bank.

Meanwhile, the Maple market – Canadian-dollar-denominated bonds issued by foreigners – remains a bright and rising star in Canada’s corporate bond market. Since the scrapping of the Foreign Property Rule in 2005, Maple issuance has skyrocketed. In the first five months of this year, the Scotia Capital Maple Bond Index was about \$10.8 billion compared to \$10.3 billion for all of 2005 and \$4 billion in 2004. While Maples are still in the early stages, this rapidly budding segment will likely bloom into a major component of Canada’s fixed income market.

Corporate Bonds

Without doubt, the quarter’s financing frenzy was largely fueled by the corporate sector. Corporate debt issuance jumped to a lofty \$22.0 billion in 121 deals, up 17.7 per cent quarter-over-quarter in value and a 49.9 per cent year-over-year. In fact, the corporate borrowing blitz in the quarter was the second highest on record – a whisker behind the all-time quarterly high of \$22.1 billion in the fourth quarter of 2004.

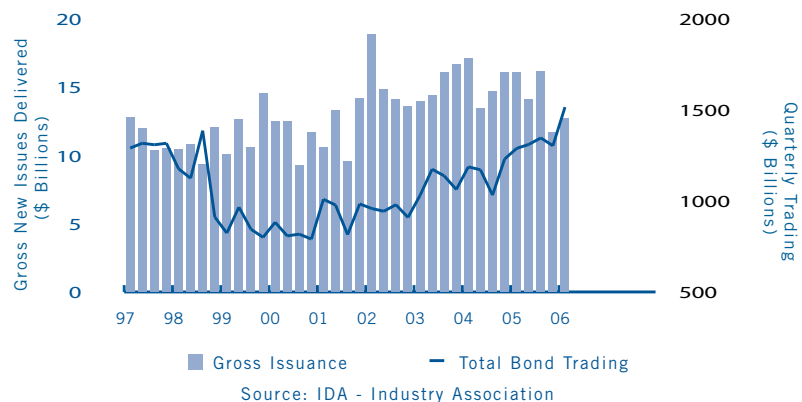
Corporate Canada’s insatiable appetite for borrowing was almost double the \$12 billion quarterly averaged during 2000-04. The pent-up corporate borrowing could be due to several factors such as funding of future investments while rates are still relatively low or building a war chest to feed future merger or acquisition plans. In any event, corporate bond issuance was on fire in the quarter with the financial and real estate sectors accounting for 74 per cent of the quarter’s financings. In addition, the proliferation of high-end issues

Government, Provincial and Municipal Bonds

Shifting gears, Government of Canada bond issuance totaled \$12.7 billion in the first quarter, up 8.9 per cent quarter-over-quarter, but down 21.7 per cent year-over-year. Despite the quarterly uptick in federal debt, issuance was at its second lowest level in four years. The more modest government borrowing comes as no surprise given that the broad trend remains on a downward trajectory. The government’s string of federal surpluses, smaller buyback operation and debt reduction target should continue to reduce the government’s need to issue long-term debt.

Provincial and municipal financing trends were also on a similar path to the Federal government. Improving provincial balance sheets have helped pare down provincial long-term public borrowing. Although provincial issuance was up 37.7 per cent in the quarter to \$8.7 billion, financings were down 3.4 per cent

Total Quarterly Canada Bond Gross Issuance and Trading



from the same period a year ago. The bounce in the quarter was boosted by Ontario – the largest provincial issuer in the period – with \$2.8 billion in offerings due mostly to debt redemption and financing the deficit. On the other hand, municipal bond issuance was \$300 million in the quarter, a decline of 81 per cent quarter-over-quarter and 6.6 per cent year-over-year. The plunge in the quarter was exacerbated by the strong base comparison, thanks to some sizeable issues from the Municipal Financial Authority of British Columbia in the fourth quarter last year.

Turning to trading, there was strong interest in Governments in the quarter. Trading in Government of Canada bonds was \$1.5 trillion in the first quarter, up 16.3 per cent quarter-over-quarter and 17.6 per cent year-over-year. Provincial trading was \$152.7 million in the quarter, up 6.1 per cent quarter-over-quarter and 45 per cent year-over-year. However, municipal trading was down in the quarter to \$2.8 million, a decline of 23.7 per cent quarter-over-quarter and 3.8 per cent year-over-year.

Money Market Trading

In the money markets, overall trading activity was solid in the quarter. Investors showed a particularly strong interest in commercial paper in the period with trading at \$328.9 million – an increase of 19.4 per cent quarter-over-quarter and 28.3 per cent year-over-year. However, trading in Bankers' Acceptances (BAs) was almost unchanged in the quarter at \$306.7 million, up just 0.8 per cent quarter-over-quarter and 0.3 per cent year-over-year. Meanwhile, Canada T-Bill trading eased to \$339.9 million in the first quarter, down 9.2 per cent quarter-over-quarter and 1.4 per cent year-over-year.

Sherry Hum
 Financial Analyst, Capital Markets
 shum@ida.ca
 416.943.5844

Government Bonds

	Q1 06 (\$ Billions)	QOQ % Chg	YOY % Chg	YTD % Chg	2005/04 % Chg
Trading (\$ Billions)					
Government of Canada Bonds	1515.0	-16.3	17.6	17.6	13.6
Canada Real Return Bonds	4.8	-26.6	9.7	9.7	9.3
Provincial Bonds	152.7	6.1	45.0	45.0	26.0
Municipal Bonds	2.8	-23.7	-3.8	-3.8	21.0
Total/Net Change	1675.3	15.2	19.6	19.6	14.6
Issuance (\$ Billions)					
Government of Canada Bonds	12.7	8.9	-21.7	-21.7	-5.6
Provincial Bonds	8.7	37.7	-3.4	-3.4	-24.5
Municipal Bonds	0.3	-81.1	-6.6	-6.6	13.0
Total/Net Change	21.7	10.2	-15.0	-15.0	-12.0
Number of Issues					
Government of Canada Bonds	18	-41.9	-33.3	-33.3	19.6
Provincial Bonds	47	-30.9	-28.8	-28.8	-13.6
Municipal Bonds	77	-49.7	20.3	20.3	21.4
Total/Net Change	142	-43.7	-9.6	-9.6	7.0

Corporate Bonds

CORPORATE BOND ISSUANCE - SECTOR BREAKDOWN (VALUE)

	Q1 06 (\$ Millions)	QOQ % Chg	YOY % Chg	% of Total Corporate Bond Issuance
Manufacturing	0.0	-100.0	-100.0	0.0
Manufacturing (Other)	86.2	-67.0	-36.4	0.4
Services*	1,530.0	-13.7	100.0	7.0
Resources**	989.5	0.3	269.2	4.5
Utilities	1,050.0	-40.3	-43.2	4.8
Financial & Real Estate	16,255.9	71.0	49.9	74.0
Other	2,063.6	-53.1	163.1	9.4

*Services = High Tech Services and Other Services **Resources = Forestry, Mining and Oil & Gas

CORPORATE BONDS

	Q1 06	QOQ % Chg	YOY % Chg	YTD % Chg	2005/04 % Chg
Trading (\$ Billions)	43.3	20.4	30.4	30.4	16.5
Issuance (\$ Billions)	22.0	17.7	49.9	49.9	4.7
Number of New Issues	121	11.0	26.0	26.0	-1.2

TOP CORPORATE BOND ISSUES IN Q1 06

Issue	Value (\$ Millions)	% of Total Issuance Value
CIBC	1,300.0	5.9
Golden Credit Card	1,146.0	5.2
Toronto Dominion Bank	1,000.0	4.5

Strip Bond & Money Market Trading

	Q1 06 (\$ Billions)	QOQ % Chg	YOY % Chg	2005/04 % Chg	2004/03 % Chg
Strip Bonds: Trading					
Provincial	17.9	1.6	17.6	-5.3	3.2
Government of Canada	8.2	-28.2	-27.2	-3.4	4.7
Total/Net Change	27.1	-10.0	-3.7	-5.2	5.2
Money Market Trading					
Government of Canada T-Bills	339.9	-9.2	-1.4	9.7	11.2
Bankers' Acceptances (BAs)	306.7	0.8	0.3	14.9	-12.7
Corporate & Finance Company (commercial paper)	328.9	19.4	28.3	-39.2	-7.8
Total/Net Change	975.5	2.2	7.5	-21.1	9.1