AVISON YOUNG

MARCH 2018

Debt Market Monitor

Debt Capital Markets Services

High issuance of U.S. treasuries could put pressure on prices

Some are referring to the expected 2018 U.S. Treasury auction slate as the new reality. The U.S. Treasury Department is likely to reveal plans for larger-volume note sales – which would be the first since 2009. The treasuries sales are expected to double in order to pay for budget deficits that are forecast to deteriorate for the foreseeable future. How much more government debt will be sold? The anticipation is that the Treasury will auction off about US$1.1 in 2018. Will there be enough appetite from buyers to absorb the wave of new supply? Central bankers are no longer buyers of securities and are now sellers of their balance sheet securities, which are bloated as a result of quantitative-easing efforts. What happens when there is too much supply of anything? Generally, the laws of supply and demand dictate lower prices – which, in the case of U.S. treasury notes, mean higher yields.

In February 2018, the U.S. Treasury sold just shy of US$180 billion of securities with yields for auctions of three and six-month debt rising to levels not seen since 2008. The suspension of the U.S. debt ceiling is not helping the cause, creating chunkier amounts for auctions than might otherwise be necessary.

JP Morgan Chase has revised its latest forecast of new net treasuries issuance for 2018 by about US$100 billion to in excess of US$1.4 trillion. By comparison, 2017 saw net issuance of approximately US$550 billion.

If demand for U.S. fixed income does not increase proportionally – i.e. double – treasury yields will likely move higher, and credit spreads could widen, producing a negative effect on the U.S. dollar as foreign investors sell depreciating U.S. assets. Borrowing rates would increase across the board if this scenario plays out. Reports from commercial banks and pension funds indicate that their institutional demand will be sufficient to absorb the $1.1 trillion excess in global bond supply left by central banks, according to JP Morgan Chase. There is a demonstrated demand for bonds; however, the increased supply coupled with central bank selling of their holding of treasuries, could put a strain on treasury prices.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending
February 2018	1.50	3.45
One month ago	1.50	3.45
One year ago	0.75	2.70

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
February 2018	2.04	2.23	2.37
One month ago	2.08	2.29	2.36
One year ago	1.09	1.62	2.34

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
February 2018	1.50 - 2.00	1.65 - 2.00
One year ago	1.70 - 2.00	1.85 - 2.35
Insured	**5-Year**	**10-Year**
February 2018	0.80 - 1.10	0.80 - 1.10
One year ago	0.95 - 1.10	1.00 - 1.20

*Spreads are indicative of high quality real estate in major Canadian markets.

DEBT CAPITAL MARKETS SERVICES

Highlighted Transaction

Asset Type	Multi family
Location	Major Canadian city
Facility Details	A senior charge, non-recourse facility insured by CMHC in the amount of $13,350,000 was arranged for a 10-year term, at a competitive rate of interest.

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Our years of combined debt/equity capital markets experience has created meaningful relationships that we can put to work for you.

Please contact our National Debt Capital Markets team for more details related to debt financings or real estate transactions.

Norm Arychuk, Broker*
416.673.4006
norman.arychuk@avisonyoung.com

Michael Ho, Mortgage Agent**
416.673.4012
michael.ho@avisonyoung.com

*Licence #: M09002260
Brokerage Licence #10637

**Licence: # M15000834
Brokerage Licence #10637

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Avison Young Commercial Real Estate (Ontario) Inc., Brokerage
18 York Street, Suite 400
Mailbox # 4
Toronto, Ontario, Canada M5J 2T8
416.955.0000

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