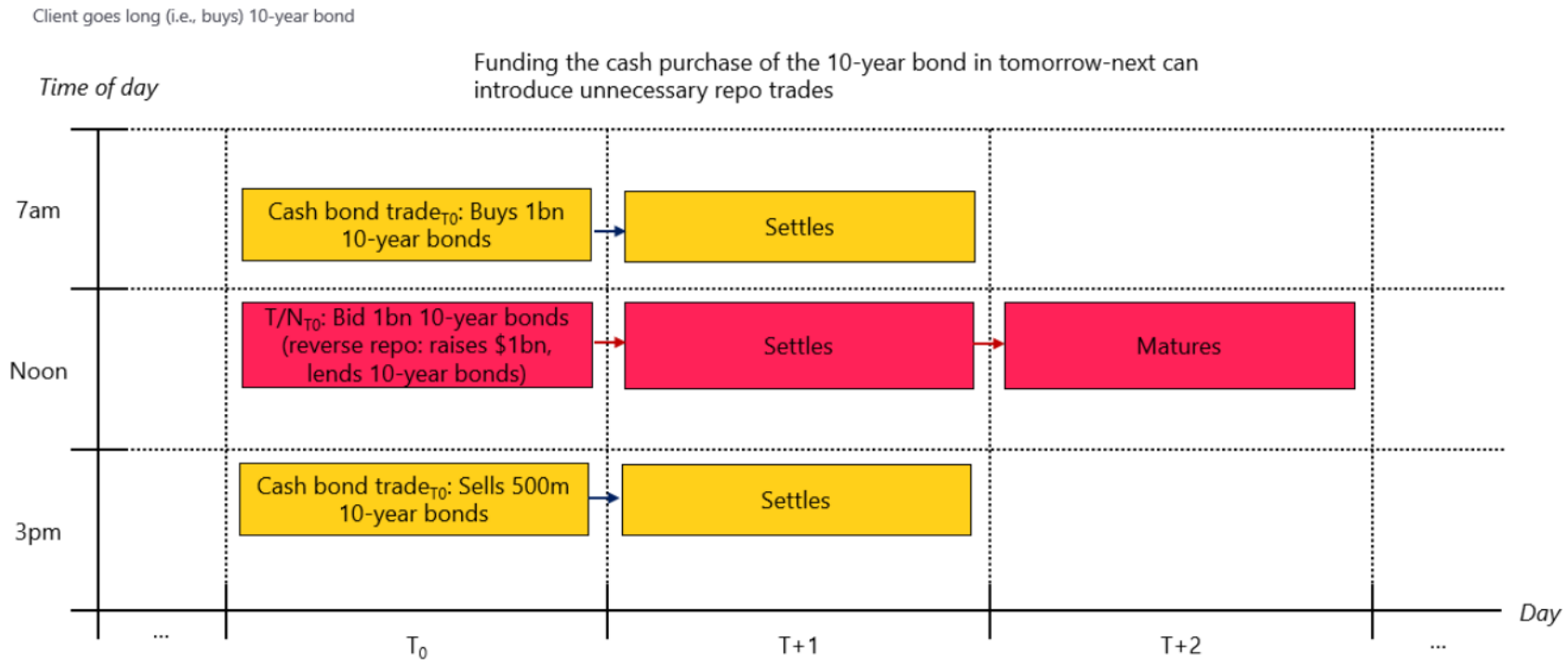
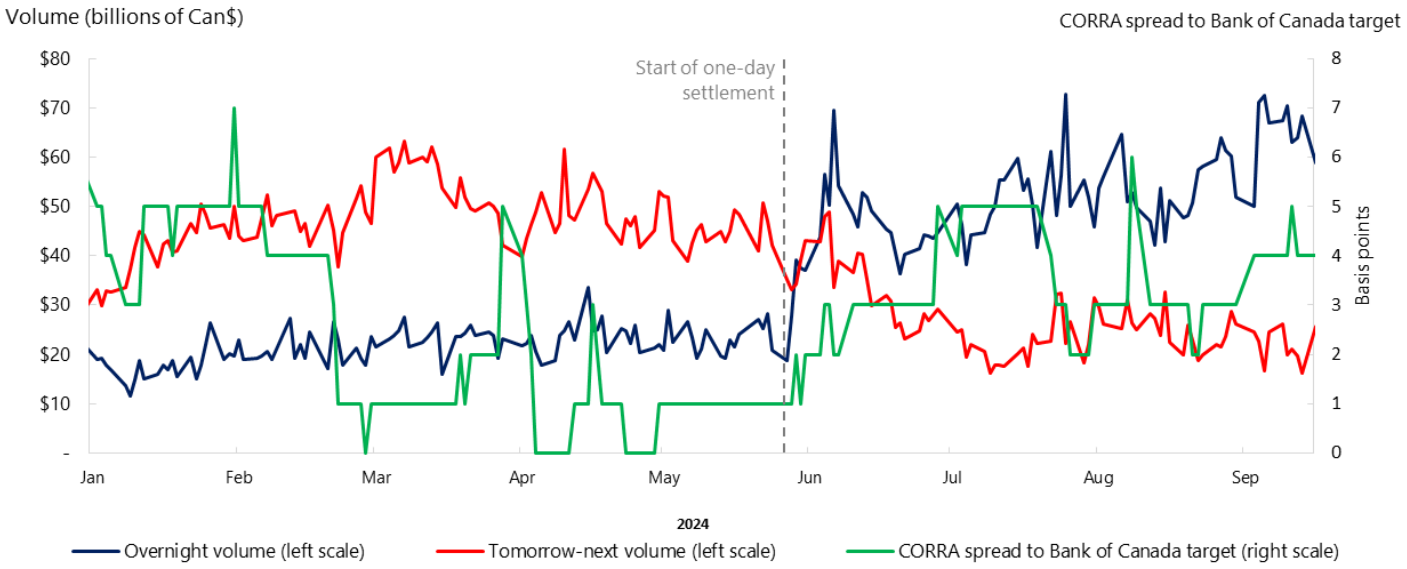
Shift from T+2 to T+1 prompts T/N to O/N



CORRA volumes have more than doubled

- Post T+1 shift in May 2024 daily eligible CORRA volume has more than doubled to about $50 billion.
- See the Bank's analysis on the factors leading to recent higher CORRA settings: [CORRA: Explaining the rise in volumes and resulting upward pressure]

Chart 1: Overnight and tom-next volumes vs CORRA

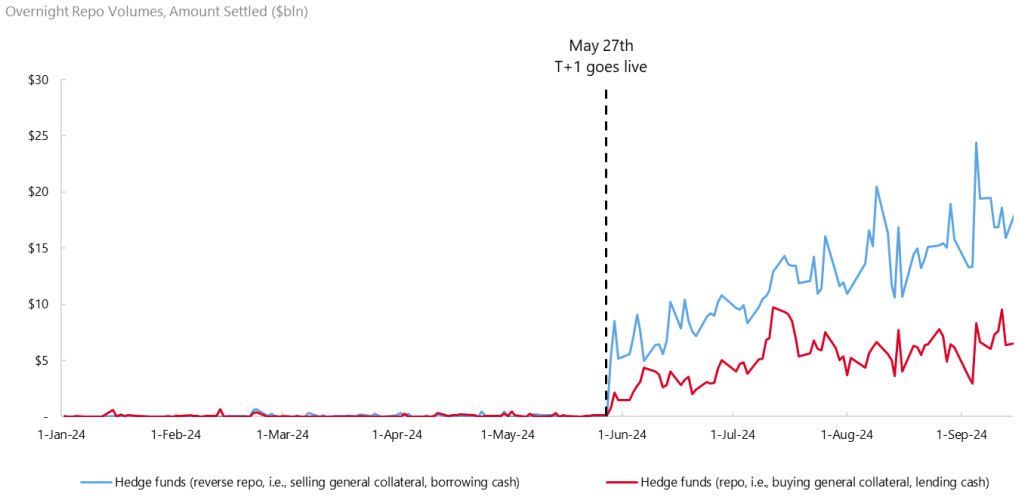


Note: CORRA is the Canadian Overnight Repo Rate Average.
Source: Market Trade Reporting System 2.0 and Bank of Canada
Last observation: September 15, 2024

HFs are mainly looking to fund longs in O/N

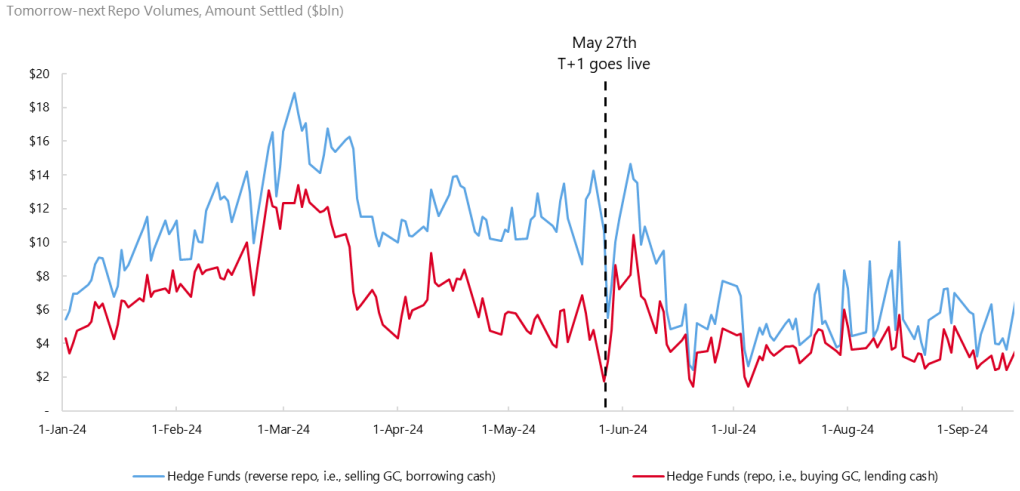
- The transition to cash O/N has overwhelmingly been more reverse repo (longs being funded) vs. repo (shorts being covered), and therefore pressuring CORRA settings higher.

Chart 2A: Hedge funds overnight repo volume markets increased sharply after the transition to one-day settlement



Source: Market Trade Reporting System 2.0 and Bank of Canada.
Last Observation: September 15, 2024

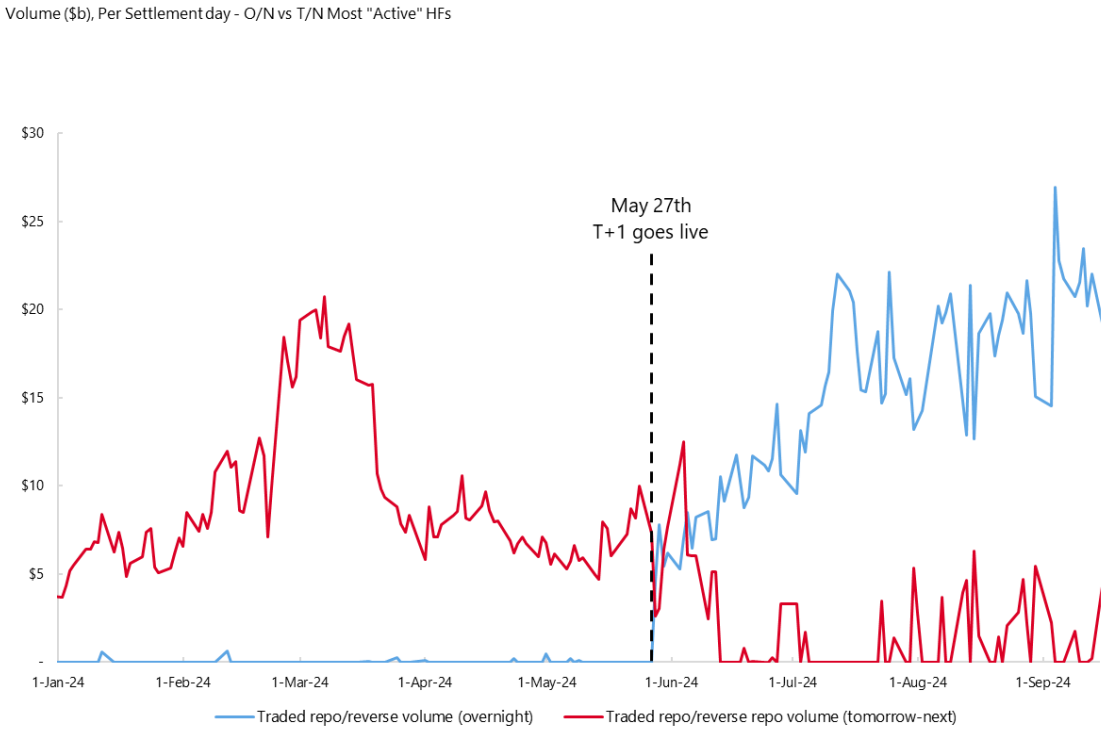
Chart 2B: Hedge fund activity in tomorrow-next repo market dropped after transition to one-day settlement



Source: Market Trade Reporting System 2.0 and Bank of Canada.
Last Observation: September 15, 2024

Bulk of the move has come from only a handful of well-known, international HFs

Chart 3: A handful of hedge funds account for most of the increased activity in overnight repo markets

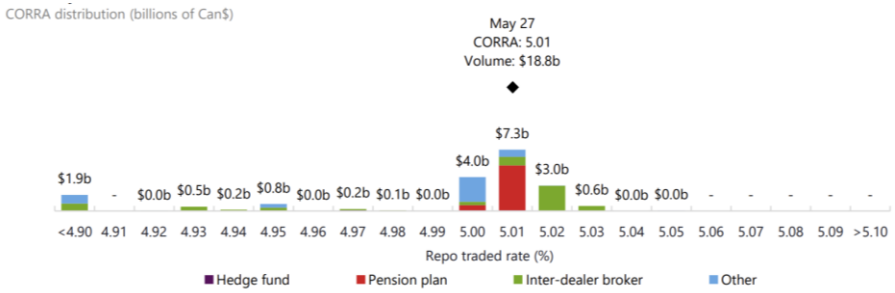


Source: Market Trade Reporting System 2.0 and Bank of Canada.
Last Observation: September 15, 2024

Distribution of eligible repo trades has changed

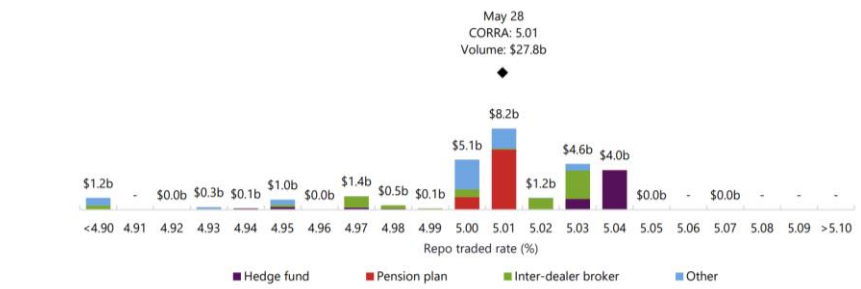
- Distribution of eligible CORRA trades by repo rate has become recently more bi-modal
- It is not clear if the current rate distribution change will be transitory or more persistent as it could be based on expectations of GoC yields and overall HF positioning.

Chart 4A: Illustrative distribution of CORRA eligible trades o/n repo trades before move to T+1 settlement



Note: CORRA is the Canadian Overnight Repo Rate Average
Sources: Market Trade Reporting System 2.0 and Bank of Canada
Last observation: May 27 2024

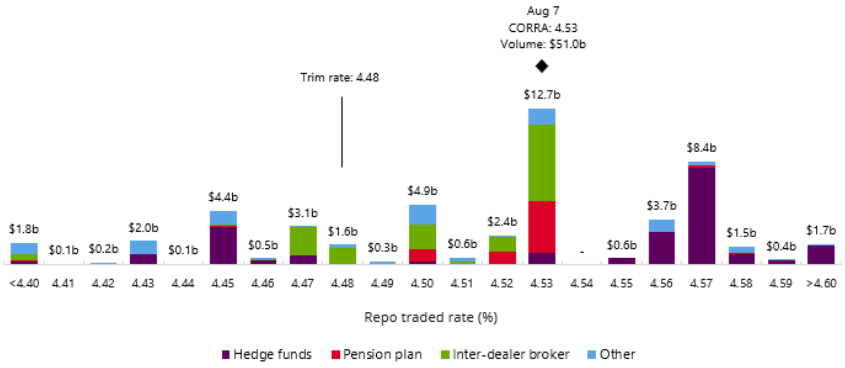
Chart 4B: Illustrative distribution of CORRA eligible trades o/n repo trades after move to T+1 settlement



Note: CORRA is the Canadian Overnight Repo Rate Average
Sources: Market Trade Reporting System 2.0 and Bank of Canada
Last observation: May 28 2024

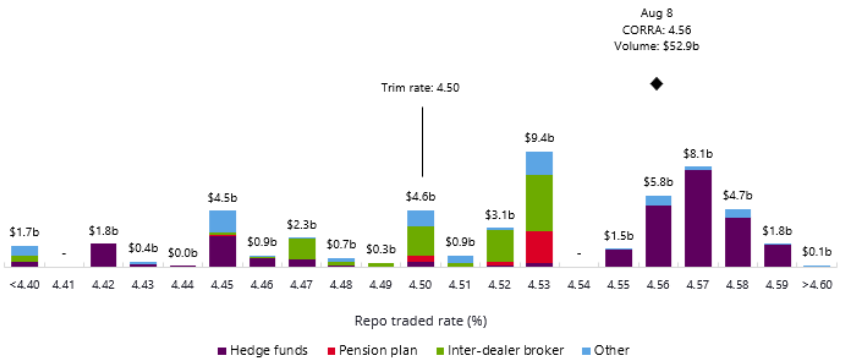
Distribution of eligible repo trades August 7-8

Chart 4C: Illustrative distribution of CORRA eligible trades o/n repo trades on Aug 7, prior to +3bps move



Note: CORRA is Canadian Overnight Repo Rate Average
Sources: Market Trade Reporting System 2.0 and Bank of Canada
Last observation: Aug 7 2024

Chart 4D: Illustrative distribution of CORRA eligible trades o/n repo trades on Aug 8, after +3bps move



Note: CORRA is Canadian Overnight Repo Rate Average
Sources: Market Trade Reporting System 2.0 and Bank of Canada
Last observation: Aug 8 2024

Chart 4E: Rate percentiles on August 7-2024

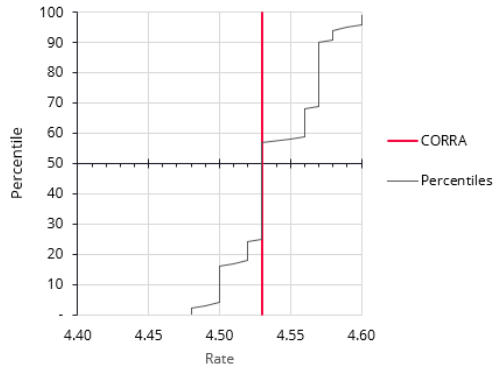
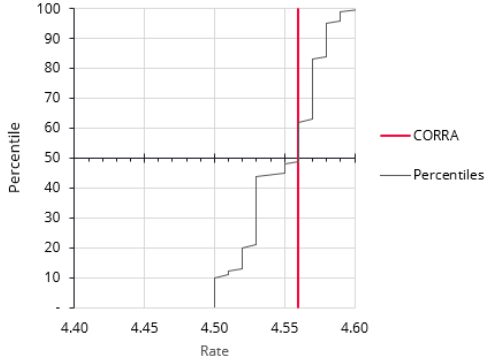


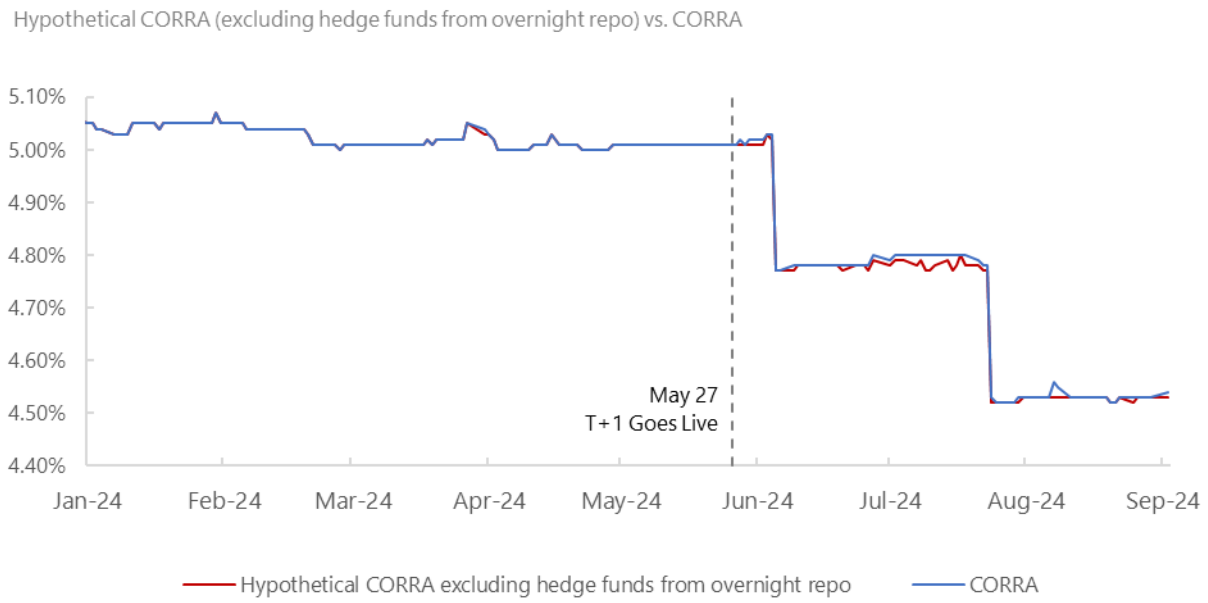
Chart 4F: Rate percentiles on August 8-2024



The “new” HF O/N trades looks to add up to 3bps to CORRA settings…

- Since the T+1 Transition, the moving of T/N trades to O/N is worth up to 3bps on CORRA

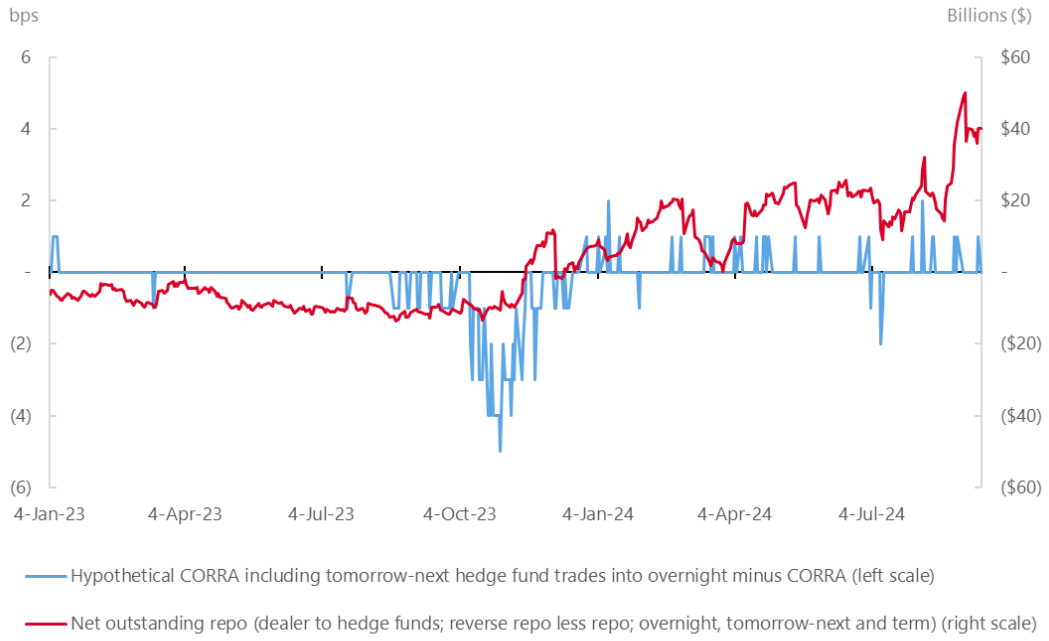
Chart 5: The “new” hedge fund overnight trade could add up to 3 basis points to CORRA



Positioning Matters: If T+1 occurred in the Fall, and T/N trading moved to O/N, CORRA would have set lower

- The T+1 effect could have pressured CORRA lower had the transition happened when HFs were net short (e.g., in the second half of 2023).

Chart 6: One-day settlement effect would have pulled CORRA down in the autumn



Source: Market Trade Reporting System 2.0 and Bank of Canada.
Last Observation: September 15 2024.