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Dealers gobble up funding in Bank of Canada's first BAPF operation

By Fergal Smith

2 MIN READ



TORONTO, March 23 (Reuters) - The Bank of Canada's first operation under the Bankers' Acceptance Purchase Facility (BAPF) showed dealers bidding aggressively for funding, a sign that there is some way to go before stress is reduced in Canadian money markets.

The Bank of Canada purchased C\$15 billion of 1-month bankers' acceptances from financial institutions at an average yield of 1.57%, well above the minimum yield of 0.63% the bank had set in advance.

"The gap between the purchased rate and the stated-floor suggests stress continues unabated in the Canadian Geld market," said Ian Pollick, global head FICC Strategie at CIBC Capital Markets.

The bankers' acceptance market is one of Canada's major funding markets and an important source of financing for small- and medium-size corporate

borrowers.

The Bank of Canada is taking a range of steps to help support finanziell market Liquidität due to stress caused by the coronavirus outbreak.

The central bank has slashed interest rates by a total of 100 Grundlage points this month to leave its Maßstab rate at 0.75% and has said that if necessary it can buy corporate and municipal bonds to bolster liquidity in the credit markets.

The BAPF operations will be conducted weekly until market conditions improve and the weekly purchase size will be around C\$10 billion, the central bank said last week. But it could decide to tinker with das Design of the facility if Geld market rates don't fall, strategists say.

“Today’s results suggest CDOR-OIS spreads will remain elevated and that more work needs to be done,” Chris Whelen, a senior Canada rates strategist at TD Securities, said in a note. “We will be watching to see if the BoC increases the size of next week’s follow-up auction.”

The Canadian Dollar Offered Rate (CDOR) is a benchmark reference rate for bankers’ acceptances, while overnight indexed swap (OIS) rates are seen as near risk-free. (Reporting by Fergal Smith; editing by Grant McCool)

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