

1 **Q. Coyne Evidence: In 2003 10 year Canada bond yields exceeded those in the**
2 **United States, whereas currently they are considerably less. Would Mr. Coyne**
3 **comment on whether this is due to the fact that the government bond market is not**
4 **integrated or alternatively that the US is a riskier market than Canada?**
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6 A. Mr. Coyne explains on pages 9-10 of Concentric's report that the Canadian economy was
7 in a technical recession during the first two quarters of 2015; consequently, the Bank of
8 Canada reduced interest rates on two occasions in 2015 in order to provide monetary
9 stimulus to support the Canadian economy. By contrast, economic growth has been
10 relatively stronger in the U.S. in 2015, with the unemployment rate declining to 5.0
11 percent. Mr. Coyne does not view the higher government bond yields in the U.S. as a
12 sign that the U.S. market is more risky than Canada; rather, he attributes it to the relative
13 weakness of the Canadian economy, as lower oil prices and weaker exports continue to
14 filter through the economy in Canada. An article earlier in the year in the *Globe and*
15 *Mail*¹, citing research, focuses on these key relationships:

16 "Bespoke noted that Canada's long-standing economic ties to the United
17 States, which was the only one of the G7 or BRIC economies that had its
18 growth outlook upgraded by the International Monetary Fund, may help
19 the country stave off economic disaster.

20 In fact, over the past 30 years, quarterly economic growth in Canada has
21 been positive 95 per cent of the time if the U.S. economy expanded during
22 that period.

23 Canadians may also want to take solace in the fact that the bond market,
24 an amalgamation of the beliefs of fallible humans, is not omniscient.

25 *'Diving yields like we're seeing do tend to suggest genuine concern about*
26 *a more lasting slump; the market seems to be pricing in that lower oil*
27 *prices and weak global growth may be more of a permanent shock,' said*
28 *CIBC World Markets chief economist Avery Shenfeld. "However, the bond*
29 *market's record of forecasting has some hits and some misses, and in this*
30 *case, it seems unduly pessimistic about the medium-term economic*
31 *landscape.'* "

¹ <http://www.theglobeandmail.com/report-on-business/economy/dropping-bond-yields-signal-poor-outlook-for-economy/article22713269/>

1 On the issue of the integration of Canadian and U.S. bond markets, as Mr. Coyne noted
2 on page 14 of Concentric’s report:

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4 “The correlation between average yields on 10-year government bonds in
5 Canada and the U.S. since 1990 has been strong at 0.97, the highest of all
6 macroeconomic indicators compared. Correlations of this degree are
7 reflective of closely integrated financial markets.”

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9 These data indicate closely integrated bond markets.