

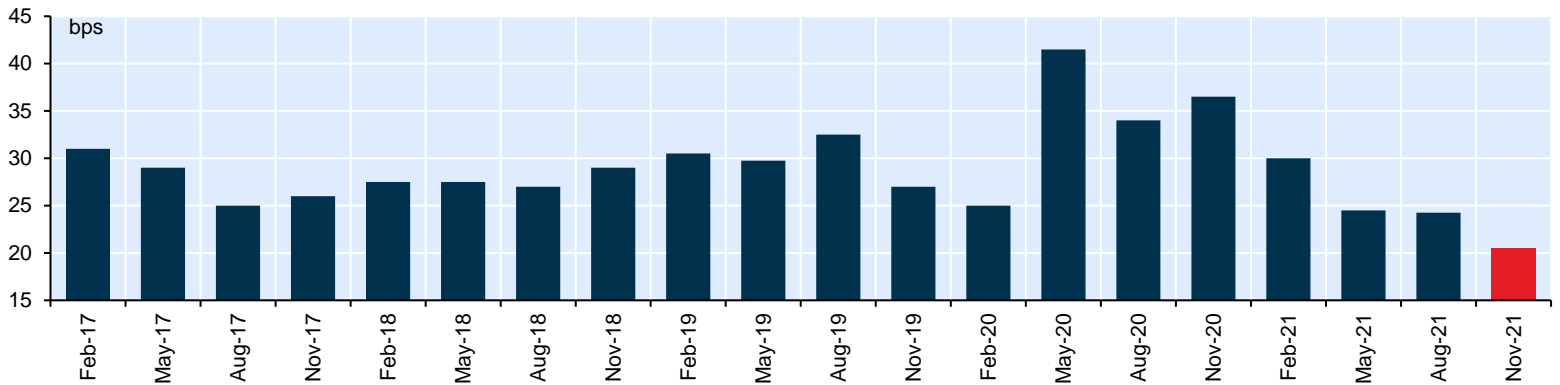
# Quick visuals: CMB offers good value with NEW 10Y in focus

By Warren Lovely & Taylor Schleich

In a [detailed note](#) exploring Canada's jumbo December cash flows, we argued that Canada Mortgage Bonds (CMB) looked fundamentally 'cheap' vs. key comps. This chart-heavy, text-light 1-pager provides additional visual perspective on CMB RV, as a brand new 10Y is right around the corner. Briefly: CMB has lagged this fall, and while the post-deal performance record is somewhat mixed for 10s, it's hard to argue with the entry point, there being a relatively modest give to Ontario. Looking at the historical range, 10Y CMB appears roughly 4 bps cheap to Ontario, the 5Y sector less discounted. Looked at another way, the 10Y CMB spread premium to Ontario, at just 34%, has resided in this neck of the woods barely 5% of the time (i.e., ever-so-rarely). Today's 10Y CMB spread is roughly 2 standard deviations above the 20- to 100-day mean, Z scores appearing particularly out of line vs. other high-grade credit. There's a more fulsome discussion to be had, encompassing yields, asset swap levels, curve/rolldown, etc. But if you were to briefly describe this upcoming 10Y CMB offering, it might simply be 'attractively priced'.

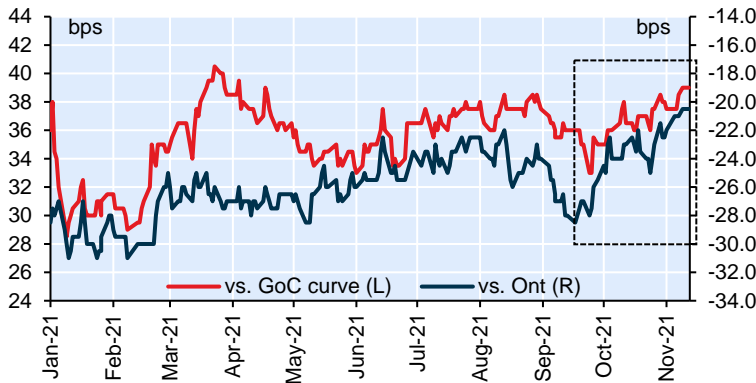
### Chart 1: Hard to argue with relative entry point for NEW 10Y CMB

Ontario-CMB basis on the day of new 10-year CMB issues



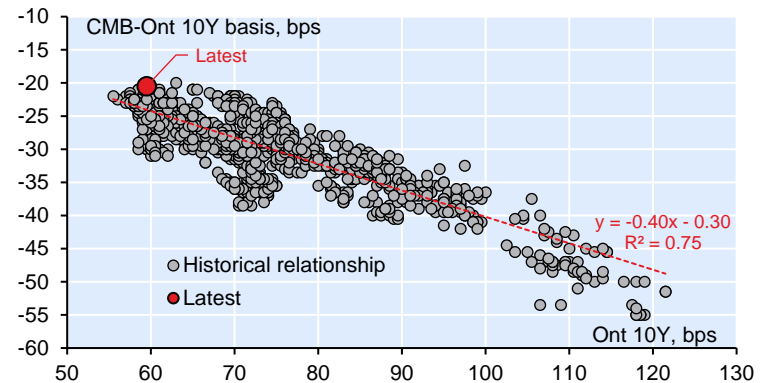
### Chart 2: CMB has cheapened this fall (in absolute & relative terms)

CMB 10Y constant maturity spread relative to GoC & Ontario



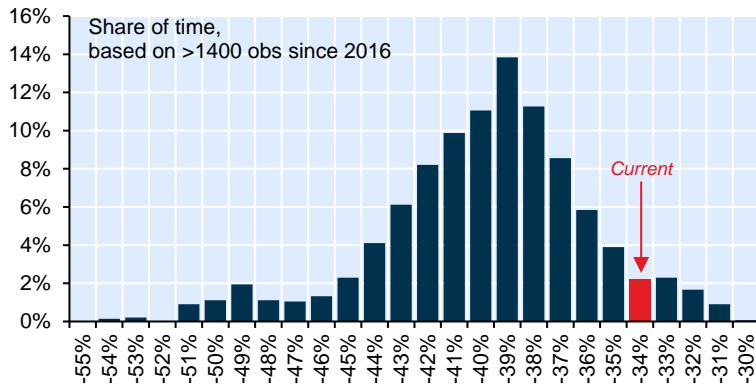
### Chart 3: 10Y ~4 bps cheap based on historical relationship

CMB-Ont 10Y constant maturity basis relative to underlying Ontario spread



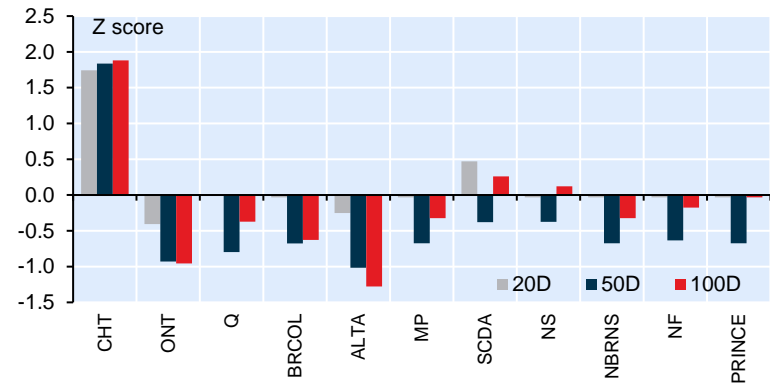
### Chart 4: CMB rarely trades at such a small premium to provis

Distribution of daily CMB spread premium to Ontario: Current + 5Y history



### Chart 5: Counting Zs... 10Y CMB a statistical outlier

CMB & provincial Z scores: 10Y sector



Source: NBF | Notes: Based on NBF constant maturity new issue spreads; Cht1 reflects all 10Y deals since 2017; Cht2 & Cht3 include daily indications since 2016 (i.e., 5+ years); more negative values in Cht4 imply greater premium to Ontario in percentage terms; Cht5 Z scores represent number of standard deviations from mean for given period (i.e., 20-100D)



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