

Canada's bond market cash: A reminder of key dates to watch

By Warren Lovely

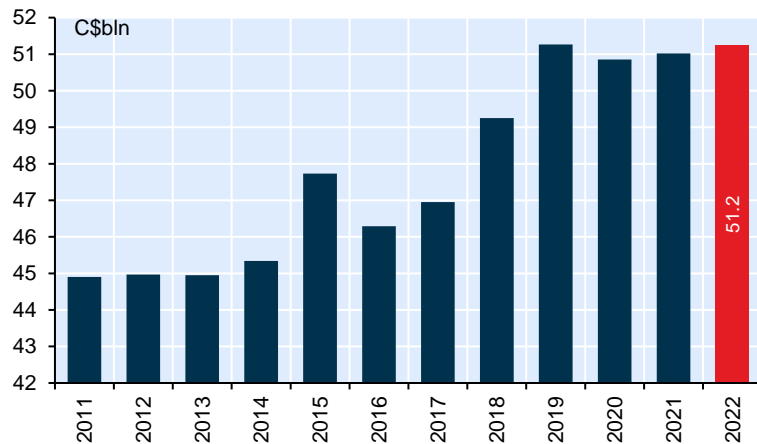
Having just flipped the calendar, many are penciling in a host of key events to watch in 2022. We won't trivialize the monetary policy decisions, major economic releases, fiscal updates, earnings reports, international forums, elections and assorted other events that will colour the year ahead. But for anyone interested in or attached to Canada's bond market, there are a handful of key dates always worth highlighting.

As it stands, some C\$51 billion of FTSE Canada Universe Bond Index cash is set to be distributed in 2022, a level not that dissimilar from recent years (Chart 1). Once again, a disproportionate amount of this cash arrives in June and December, followed by March and September (Chart 2). The individual days that really warrant your attention are highlighted in Chart 3. For instance, the tidal wave of index cash arriving on both June 1st and December 1st represent 10-standard deviation events relative to average daily cashflows. June 2nd and December 2nd aren't all that far behind. In all, we can trace nearly 40% of the coming year's projected index cash to these four days alone. Add in the next four largest cashflow days (March 1st, September 1st, June 15th, December 15th) and you have eight days accounting for roughly half of all the major bond index cash set to flow in 2022. Now that's inequality or super-concentration if we ever saw it.

Beyond coupon effects, note that the composition of fixed income indices will transform as the year rolls along. At the end of 2021, there were nearly 1,600 securities in the FTSE Canada Universe Bond Index with total outstandings north of C\$1.8 trillion. In calendar 2022, more than 130 bonds (with a combined index weight of ~12%) are set to roll out. Another 140 or so (6½% combined weight) will roll over from Mid to Short or Long to Mid (Chart 4). These concentrated roll outs and roll overs, combined with big-time coupon payments, mean sizeable extensions at key points of the year. Related investor activity hints at potential for seasonal repricing of rates and credit, all else equal. It's still a bit early to be running detailed simulations for these key days. But as the truly extraordinary cashflow/roll days draw closer, we'll have detailed sims ready and waiting. In the meantime, take a few minutes to update your calendar. In Canada, a small handful of days are not to be forgotten.

Chart 1: Another big year of lumpy cashflows in store

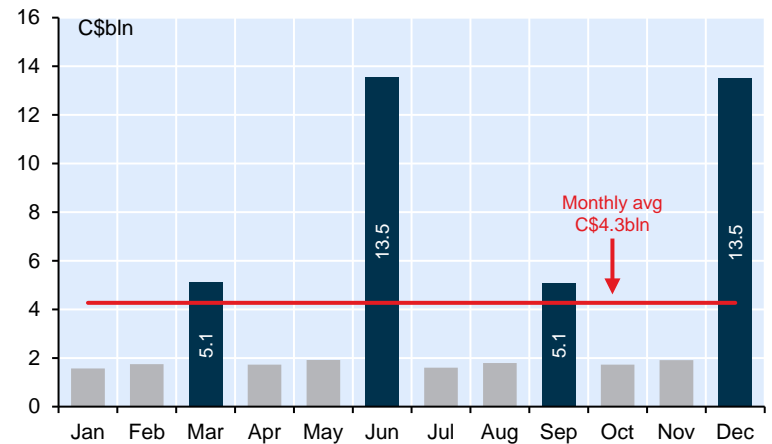
Projected FTSE Canada Universe Bond Index cashflows: 2022 vs. trend



Source: NBF, FTSE Russell

Chart 2: Typical seasonal concentration of index cash

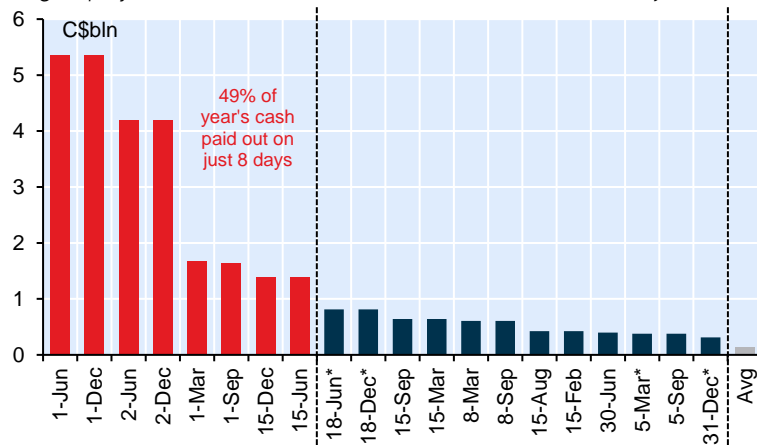
Projected FTSE Canada Universe Bond Index cashflows: 2022 by month



Source: NBF, FTSE Russell

Chart 3: The cash really rains down on 4-8 key days

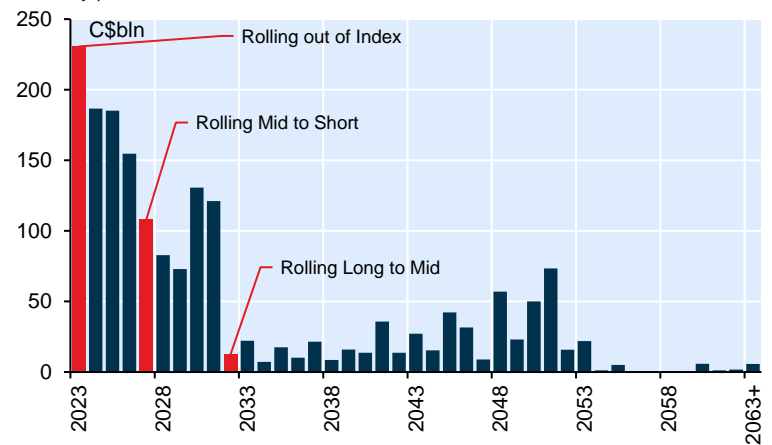
Largest projected FTSE Canada Universe Bond Index cashflow days: 2022



Source: NBF, FTSE Russell | Note: Asterisk (*) denotes a day that falls on weekend in 2022; refer to Chart 5 (page 2) for additional details

Chart 4: Roll outs/roll overs key duration adjustments

Maturity profile of current FTSE Canada Universe Bond Index bonds



Source: NBF, FTSE Russell | Note: Red bars denote roll out/roll over during 2022; refer to Table 1 (page 2) for additional details



Table 1: A current snapshot/summary of the bonds due to roll out or roll over in 2022

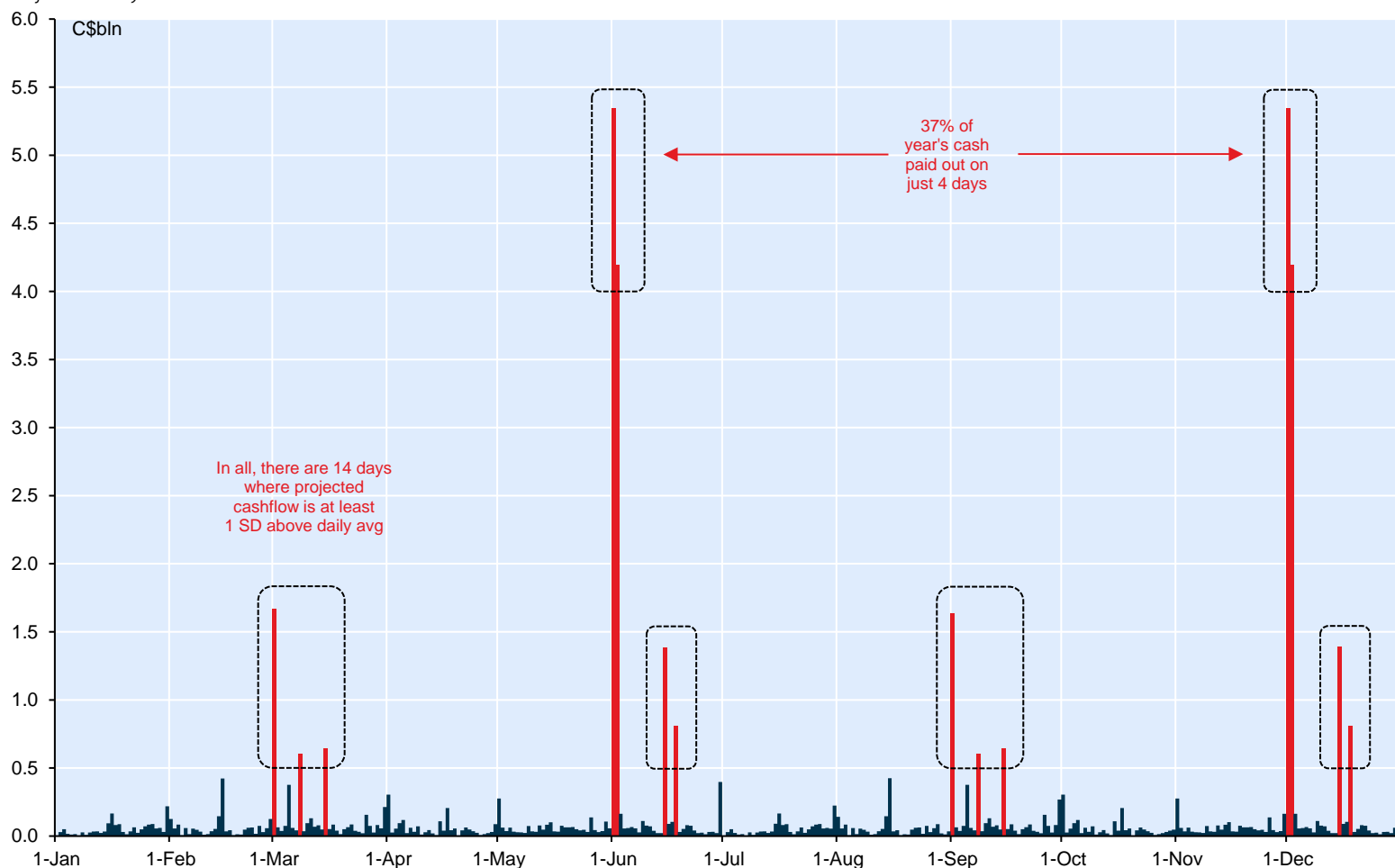
Composition of FTSE Canada Universe Bond Index constituents, summarizing bonds rolling out of Universe or rolling from one bucket to another in 2022

	Bond maturity	Number of bonds	Current holdings	Share of holdings	Average size	Max size	Bonds >\$10B	Largest bonds rolling in 2022		
	Year	#	C\$bln	%	C\$bln	C\$bln	#	1st	2nd	3rd
All bonds in Universe	All	1,592	1,839.9	100.0	1.16	33.74	40			
Rolling Out of Index	2023	133	230.6	12.0	1.73	16.62	10	CAN 2% 09/23	CAN 0.25% 02/23	CAN 1.75% 03/23
Rolling Mid to Short	2027	113	107.9	5.7	0.95	11.98	1	ONT 2.6% 06/27	CAN 1.25% 03/27	CAN 1% 06/27
Rolling Long to Mid	2032	28	12.4	0.8	0.44	4.03	0	Q 6.25% 06/32	ROFLP 5.21% 11/32	NPICN 4.96% 12/32
Remaining	x23,27,32	1,318	1,488.9	81.6	1.13	33.74	29			

Source: NBF, FTSE Russell

Chart 5: A more detailed/complete look at Canada's bond index cash flows for calendar 2022

Projected daily FTSE Canada Universe Bond Index cash flows: 2022



Source: NBF, FTSE Russell

Note: This report utilizes FTSE Russell analytics. As it relates to projected index roll outs, roll overs and cash flows for 2022, we based on our analysis on index constituents and outstandings as of late December 2021. Actual index adjustments and cash flows will be impacted by upcoming issuance and resulting changes in index composition, among other things. As noted on page 1, we will prepare detailed index simulations ahead of the major cash flow/duration extension dates, the first set of sims to be expected well in advance of March 1st.



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