



## Duration nation (as here comes the cash)

By Warren Lovely

Sick of hearing about Canada's seasonal cash flows, which are quite heavily concentrated this time of year? Well forgive us, but when bond cash flows are this significant and related index adjustments so material, the details/specifics should be kept top of mind. So this brief *Market View* summarizes our latest simulations of FTSE Canada Universe Bond Index adjustments for December's key dates, the first leg of major index rebalancing kicking off tomorrow (December 1<sup>st</sup>). Coupon- and roll-driven duration extension is the theme here, with the underlying nature or source of incremental index duration varying from one key day to another.

Treat this as technical background ahead of December's ultra-lumpy cash flows. To be clear, our simulations are based on bond index constituents and prices at a precise moment in time (in this case using closing levels from November 29<sup>th</sup>) and are thus subject to change. As a final reminder, we have a few other relevant/related pieces on offer, most notably:

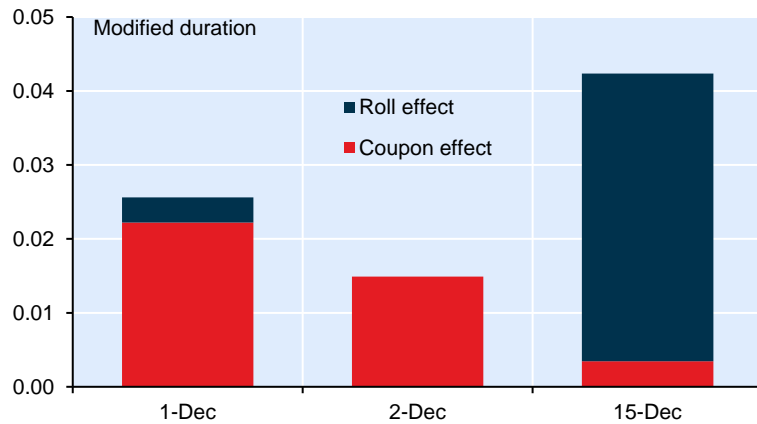
[Rain down on me: Canada's December bond market cash \(3-Nov\)](#) | [Simulating stuff \(4-Nov\)](#)

[December cash flows: Lucky number 13? \(14-Nov\)](#) | [Holiday party in Canadian public sector credit? \(22-Nov\)](#)

### FTSE Canada Universe Bond Index: Updated simulations of December's key dates (1<sup>st</sup>, 2<sup>nd</sup> & 15<sup>th</sup>)

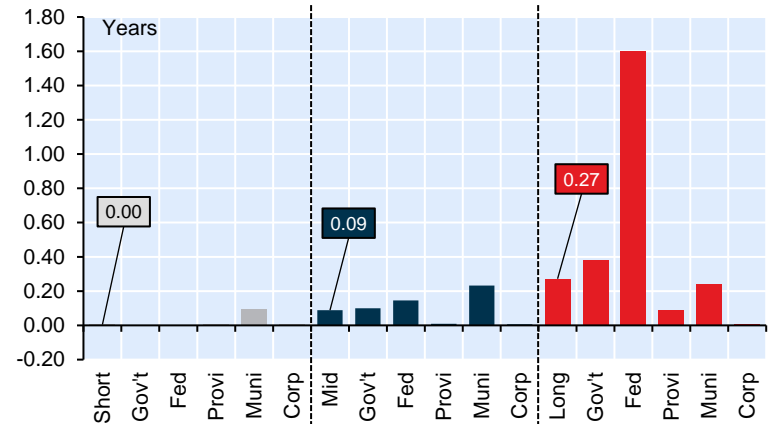
**Chart 1: Nature of duration adjustment varies by key day**

Nature of chg in duration of FTSE Canada Universe Bond Index: Key dates



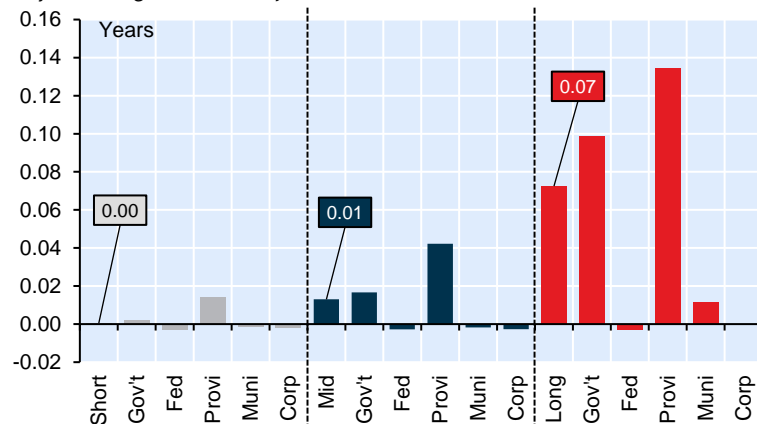
**Chart 2: GoC coupons the main story on December 1<sup>st</sup>**

Projected chg in duration by bucket/sector: [Wed 30-Nov](#) to [Thur 1-Dec](#)



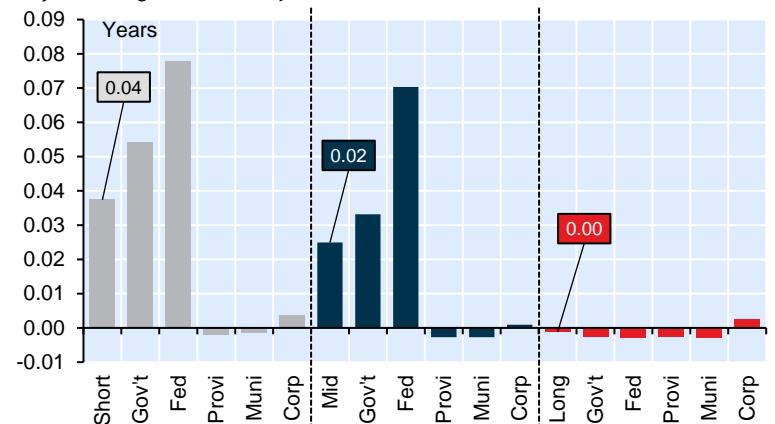
**Chart 3: Provi cash in the spotlight on December 2<sup>nd</sup>**

Projected chg in duration by bucket/sector: [Thur 1-Dec](#) to [Fri 2-Dec](#)



**Chart 4: CMB rolls a focal point on December 15<sup>th</sup>**

Projected chg in duration by bucket/sector: [Wed 14-Dec](#) to [Thur 15-Dec](#)



For Charts 1-4 > Source: NBF, FTSE Russell

Notes: NBF simulations of FTSE Canada Universe Bond Index; based on index composition & closing prices as at 29-Nov-2022; assumes no change in yield curve

December 1<sup>st</sup> effects (Chart 2): C\$6.25bln in cash flows. NBF estimates +0.026 increase in modified duration of Universe, with the majority attributable to roll effects. Duration adjustments in the Long bucket will be particularly notable. Long Federal to extend +1.603 as CAN 2.5% 12/2032 (C\$17bln o/s) rolls Long to Mid. That should support performance of longer dated Canadas, all else equal.

December 2<sup>nd</sup> effects (Chart 3): C\$4.37bln in cash flows. NBF estimates +0.015 increase in modified duration of Universe, capturing a coupon effect as no bonds roll out of the Universe that day. The largest duration increase will be seen in the Long bucket. Provincials extend in all buckets. The only bond rolling over, in this case from Long to Mid, is MP 3.9% 12/2032 (C\$1050mln o/s). Combined with the prior day's outsized cash and required portfolio repositioning, provincial issuers could issue into underlying investor demand, subject to market conditions and financing requirements.

December 15<sup>th</sup> effects (Chart 4): C\$1.52 billion in cash flows. NBF estimates +0.042 increase in modified duration of Universe, with much of that attributable to roll effects. This duration increase is primarily a CMB story. CANHOU 2.55% 12/2023 (-C\$11bln) rolls out of the Universe, while CANHOU 3.6% 12/2027 (C\$5bln o/s) will roll Mid to Short on the 15<sup>th</sup>.

Note: Refer to the detailed Table on page 2 for specific roll outs and roll overs for key days in December 2022.



**Table: Identifying the specific bonds in focus this December, with a small handful due to move the dial**

Specific bond issues rolling out of FTSE Canada Universe Bond Index or rolling from one bucket to another: December 1<sup>st</sup>, 2<sup>nd</sup>, 15<sup>th</sup> & 18<sup>th</sup>

December 1st: FTSE Canada Universe Bond Index rolls out/roll overs														
Rolling out of UNIVERSE					Rolling over MID to SHORT					Rolling over LONG to MID				
Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %
ALTA	3.40	01-Dec-23	500	0.03	BCMFA	4.95	01-Dec-27	657	0.04	CAN	2.50	01-Dec-32	17,000	0.87
NWRWPT	1.20	01-Dec-23	500	0.03	RLNCE	2.68	01-Dec-27	430	0.02	MNTRL	4.25	01-Dec-32	517	0.03
<b>Total rolling out</b>			<b>1,000</b>	<b>0.05</b>	<b>Total rolling over</b>			<b>1,087</b>	<b>0.06</b>	<b>Total rolling over</b>			<b>17,517</b>	<b>0.90</b>

December 2nd: FTSE Canada Universe Bond Index roll outs/roll overs														
Rolling out of UNIVERSE					Rolling over MID to SHORT					Rolling over LONG to MID				
Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %
N/A					N/A					MP				
										3.90 02-Dec-32 1,050 0.06				
<b>Total rolling out</b>			<b>0</b>	<b>0.00</b>	<b>Total rolling over</b>			<b>0</b>	<b>0.00</b>	<b>Total rolling over</b>			<b>1,050</b>	<b>0.06</b>

December 15th: FTSE Canada Universe Bond Index roll outs/roll overs														
Rolling out of UNIVERSE					Rolling over MID to SHORT					Rolling over LONG to MID				
Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %
CANHOU	2.55	15-Dec-23	10,485	0.56	CANHOU	3.60	15-Dec-27	5,000	0.27	BCECN	9.70	15-Dec-32	45	0.00
DTRGR	1.85	15-Dec-23	800	0.04	SE	6.75	15-Dec-27	150	0.01					
PRINCE	8.5	15-Dec-23	52	0.00										
<b>Total rolling out</b>			<b>11,337</b>	<b>0.60</b>	<b>Total rolling over</b>			<b>5,150</b>	<b>0.28</b>	<b>Total rolling over</b>			<b>45</b>	<b>0.00</b>

December 18th: FTSE Canada Universe Bond Index roll outs/roll overs														
Rolling out of UNIVERSE					Rolling over MID to SHORT					Rolling over LONG to MID				
Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Weight %
BRCOL	3.30	18-Dec-23	2,150	0.12	N/A					N/A				
<b>Total rolling out</b>			<b>2,150</b>	<b>0.12</b>	<b>Total rolling over</b>			<b>0</b>	<b>0.00</b>	<b>Total rolling over</b>			<b>0</b>	<b>0.00</b>

Source: NBF, FTSE Russell | Note: Relevant securities as of 29-Nov-2022; O/S amount & corresponding weight (in Universe) based on 'current holdings'; other bonds will roll out or roll over the course of December 2022, but we have focused on four key days (1<sup>st</sup>, 2<sup>nd</sup>, 15<sup>th</sup>, 18<sup>th</sup>)



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