

Rolling in cash

By Warren Lovely

November only just got started and here we are previewing the looming bond market gymnastics tied to outsized December coupon/roll impacts. This *Market View* is contextual/technical, focusing on the projected impacts on the FTSE Canada Universe Bond Index as December's key days tick by. There are 3 or 4 dates to pay attention to: December 1st, 2nd, 15th and 18th. Very briefly:

More cash → There's 13% more index cash this December vs. the same time last year. Over 70% of that cash can be traced to the 1st/2nd;

Roll outs/roll overs a thing → Depending on the day, bucket, sector, the odd roll out (or roll over) can drive sizeable shifts in index duration. The clearest example is the extra duration to be added to the Long bucket on December 1st when the CAN 12/2033s roll down (into Mid);

Duration nation → We've seen a radical re-think on duration (investors hated it in September, have been more comfortable of

late). Notwithstanding policy rate and term premia question marks, seasonal cash should give duration a bid, lending marginal technical support to Canada's fixed income market (all else equal);

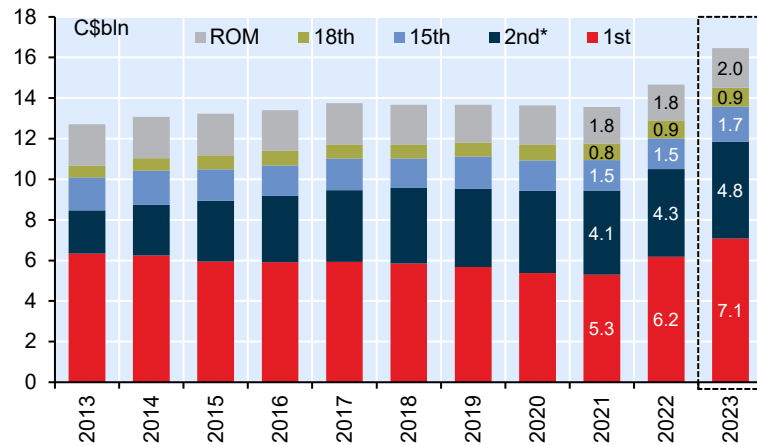
Issuers aren't stupid → Issuers can be expected to tap the available cash. Provinces, moving clear of mid-year updates, will be eager to advance borrowing programs. Demand will meet with supply then;

Not all else is equal → There are some simplifying assumptions at play here, and the old caution—*ceteris paribus*—bears repeating. Seasonal factors/tendencies, even super-concentrated cash flows, can't be relied on blindly when it comes to driving performance;

Tell me more → Don't worry, we will have additional analysis coming your way, including a comprehensive package of test results for rates and credit markets. We won't keep you in suspense long. Promise.

Chart 1: 13% more index cash this December vs. last year

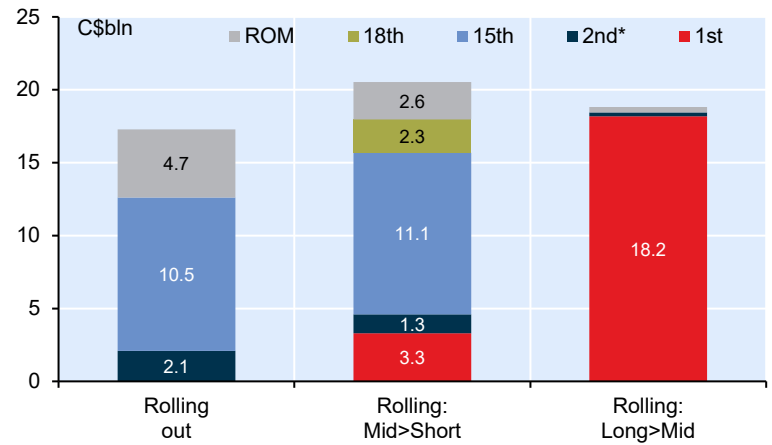
Projected FTSE Canada Universe Bond Index cash flows: Dec-23 vs. prior 10Y



Source: NBF, FTSE Russell | Note: Generated as at 31-Oct to 2-Nov each year; ROM refers to rest of Dec; Dec 2nd falls on weekend in 2023

Chart 2: Chunky roll outs/roll overs leave mark(s) on index

Value of bonds rolling out/over in FTSE Canada Universe Bond Index: Dec-23

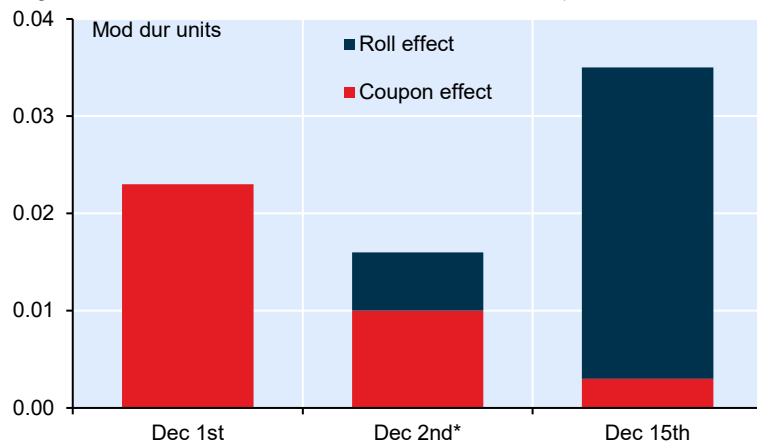


Source: NBF, FTSE Russell | Note: Based on index constituents as at 1-Nov-23; Dec 2nd falls on weekend; refer to Table (pg 3) for specific security details

As things stand, there's C\$16.5bn of FTSE Canada Universe Bond Index cash due to be paid out this December. That's a fresh high for the month of December, topping last year's tally by 13%. Over 40% of December's cash arrives on the 1st. The second big slug won't be captured until December 4th, since the 2nd falls on a weekend. A dozen securities are set to drop out of Universe over the course of December. A further 18 either roll from Mid to Short or from Long to Mid. The single biggest roll relates to the CAN 3.25% 12/01/2033s, boosting the duration of Long index on the 1st.

Chart 3: A different duration story on different days...

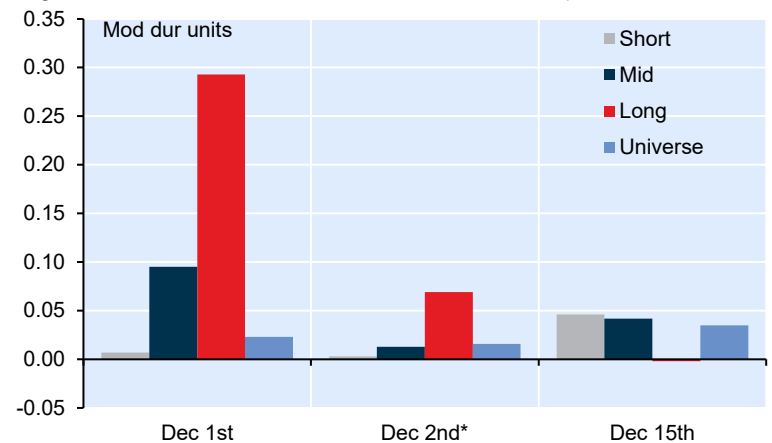
Chg in duration of FTSE Canada Universe Bond Index: Key dates (Dec-23)



Source: NBF, FTSE Russell | Note: NBF sims based on index composition/prices as at 1-Nov-23; assumes no chg in yield curve; subject to change; Dec 2nd falls on weekend

Chart 4: ... with GoC impacts on Dec 1st most notable

Chg in duration of FTSE Canada Universe Bond Index: Key dates (Dec-23)



Source: NBF, FTSE Russell | Note: NBF sims based on index composition/prices as at 1-Nov-23; assumes no chg in yield curve; subject to change; Dec 2nd falls on weekend

Super-sized coupons and chunky bond rolls will add successive amounts of duration to the FTSE Canada Universe Bond Index as December progresses (*ceteris paribus*). The nature and location of these adjustments vary by sector and/or bucket on key days. Overall effects should bolster investor demand, with issuers likely keen to capture this outsized seasonal cash when/where possible.

Chart 5: Government of Canada coupon/roll effect the main story on December 1st

December 1st effect – Projected change in modified duration of FTSE Canada Universe Bond Index by term & sector: 30-Nov to 1-Dec

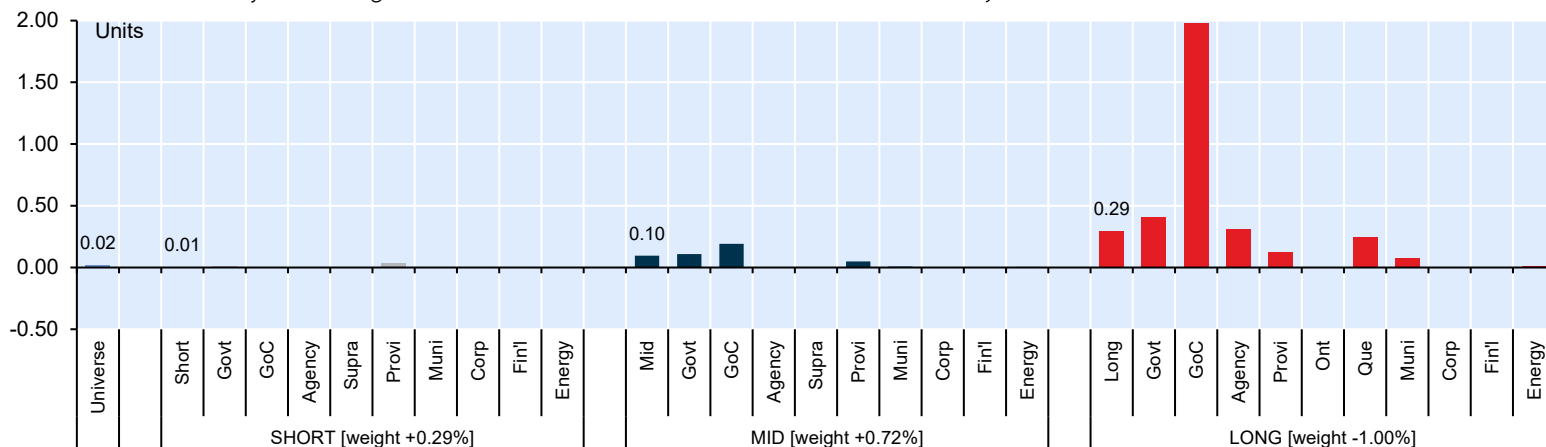


Chart 6: Provincial coupons generally in the spotlight come December 2nd

December 2nd effect (captured December 4th) – Projected change in modified duration of FTSE Canada Universe Bond Index by term & sector: 1-Dec to 4-Dec

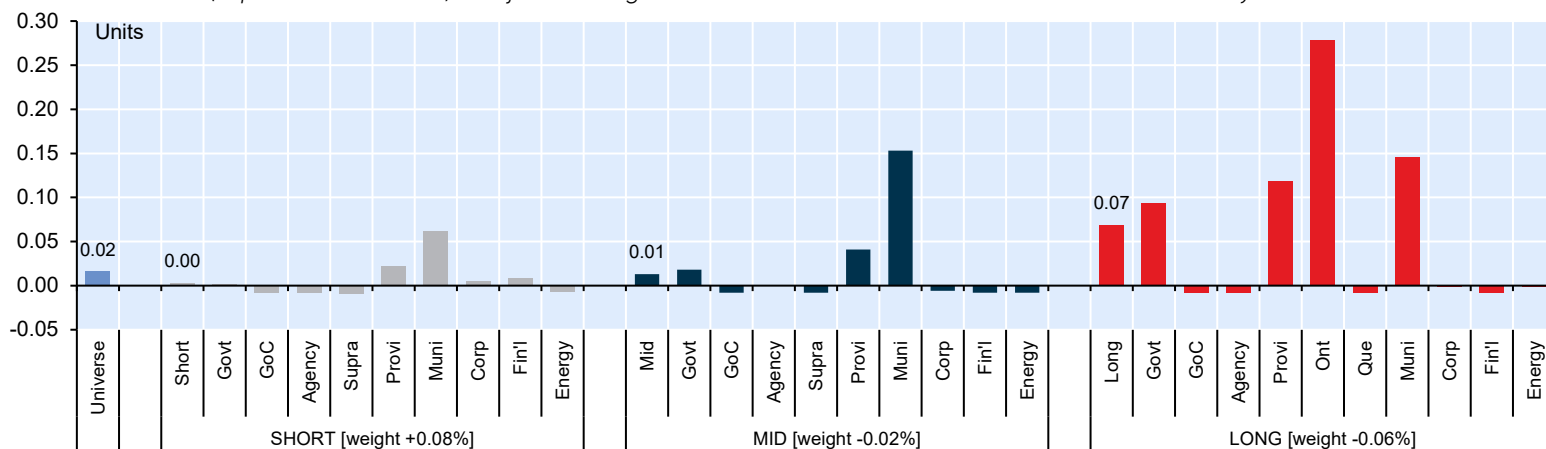
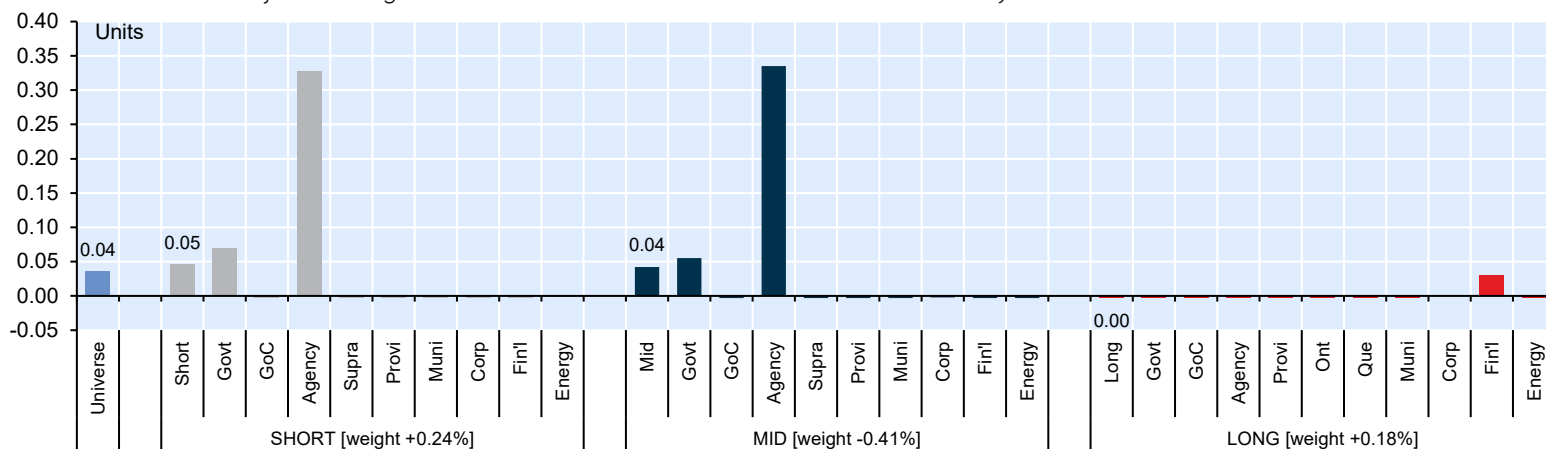


Chart 7: Canada Mortgage Bonds (part of Federal Agency Bond Index) the key focus on December 15th

December 15th effect – Projected change in modified duration of FTSE Canada Universe Bond Index by term & sector: 14-Dec to 15-Dec



For Charts 5-7 > Source: NBF, FTSE Russell | Note: NBF simulations based on index composition & closing prices as at 1-Nov-23; assumes no change in yield curve

December 1st effects (Chart 5): C\$7.1bln in cash flows. NBF estimates +0.023 increase in modified duration of Universe, with no bonds rolling out. Adjustments to the Long bucket will be particularly notable. Long Federal (non-agency) to extend +1.983 units as CAN 3.25% 12/01/2033 (C\$17bln o/s) rolls Long to Mid. That should support performance of longer dated Canadas, all else equal.

December 2nd effects (Chart 6): C\$4.8bln in cash flows. NBF estimates +0.016 increase in modified duration of Universe, the majority via coupon effects (although 3 bonds roll out). The largest duration increase will be seen in the Long bucket. Provincials extend in all buckets. A single bond rolls Mid to Short (SCDA/provi), while another bond rolls Long to Mid (PEEL/muni). December 2nd falls on a weekend this year. Notwithstanding the required calendar management, we would expect provincial governments to issue into underlying/related investor demand, subject to market conditions.

December 15th effects (Chart 7): C\$1.7bln in cash flows. NBF estimates +0.035 increase in modified duration of Universe, with much of that attributable to roll effects. This duration increase is primarily a CMB story. CANHOU 1.8% 12/15/2023 (C\$10.5bln o/s) rolls out of the Universe, while two CANHOU issues roll Mid to Short on the 15th (combined o/s of ~C\$11bln).

Note: Refer to the detailed Table on page 3 for specific roll outs and roll overs for key days in December 2023.



Table: A look at the securities in focus this December 2023... as before, it only takes a few biggies to move the duration dial
 Specific bond issues rolling out of FTSE Canada Universe Bond Index or rolling down from one term 'bucket' to another: December 1st, 2nd, 15th & 18th

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\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %
N/A					ALTA	2.90	1-Dec-28	3,300	0.16	CAN	3.25	1-Dec-33	17,000	0.85
										ALTA	3.90	1-Dec-33	1,190	0.06
Total rolling out					Total rolling over					Total rolling over				
0					3,300					18,190				
0.00					0.16					0.91				

December 2nd*: FTSE Canada Universe Bond Index roll outs/roll overs (captured December 4th)														
Rolling out of UNIVERSE					Rolling over MID to SHORT					Rolling over LONG to MID				
Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %
MRUCN	1.92	2-Dec-24	300	0.02	SCDA	3.05	2-Dec-28	1,300	0.06	PEEL	4.25	2-Dec-33	250	0.01
TD	2.50	2-Dec-24	1,750	0.09										
BCMFA	5.35	2-Dec-24	50	0.00										
Total rolling out					Total rolling over					Total rolling over				
2,100					1,300					250				
0.11					0.06					0.01				

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\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %
CANHOU	1.80	15-Dec-24	10,500	0.53	CANHOU	2.65	15-Dec-28	6,070	0.30	N/A				
					CANHOU	4.25	15-Dec-28	5,000	0.26					
Total rolling out					Total rolling over					Total rolling over				
10,500					11,070					0				
0.53					0.56					0.00				

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\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %	Issuer Ticker	Cpn %	Maturity Date	O/S C\$m/n	Weight %
N/A					SRUUCN	2.31	18-Dec-28	300	0.01	N/A				
					BRCOL	2.95	18-Dec-28	2,000	0.10					
Total rolling out					Total rolling over					Total rolling over				
0					2,300					0				
0.00					0.11					0.00				

Summary: December 2023														
Rolling out of UNIVERSE					Rolling over MID to SHORT					Rolling over LONG to MID				
Date	# of securities	C\$m/n	%		Date	# of securities	C\$m/n	%		Date	# of securities	C\$m/n	%	
Dec 1st	-	0	0.00		Dec 1st	1 issue	3,300	0.16		Dec 1st	2 issues	18,190	0.91	
Dec 2nd*	3 issues	2,100	0.11		Dec 2nd*	1 issue	1,300	0.06		Dec 2nd*	1 issue	250	0.01	
Dec 15th	1 issue	10,500	0.53		Dec 15th	2 issues	11,070	0.56		Dec 15th	-	0	0.00	
Dec 18th	-	0	0.00		Dec 18th	2 issues	2,300	0.11		Dec 18th	-	0	0.00	
Rest of M	8 issues	4,678	0.26		Rest of M	7 issues	2,568	0.11		Rest of M	2 issues	385	0.02	
Total	12 issues	17,278	0.90		Total	13 issues	20,538	1.00		Total	5 issues	18,825	0.94	

Source: NBF, FTSE Russell | Note: Relevant securities as of 1-Nov-23; amount O/S & weight (in Universe) references "current holdings"; rest of month in summary section (bottom) of table refers to all other securities rolling out or rolling over on the other 27 days of Dec (i.e., excl. 1st, 2nd, 15th, 18th); Dec 2nd falls on weekend (Sat) in 2023, while Dec 1st, 15th, 18th are good business days



Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King, CFA

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

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