

An amuse-bouche for Canada's bond market

By Warren Lovely

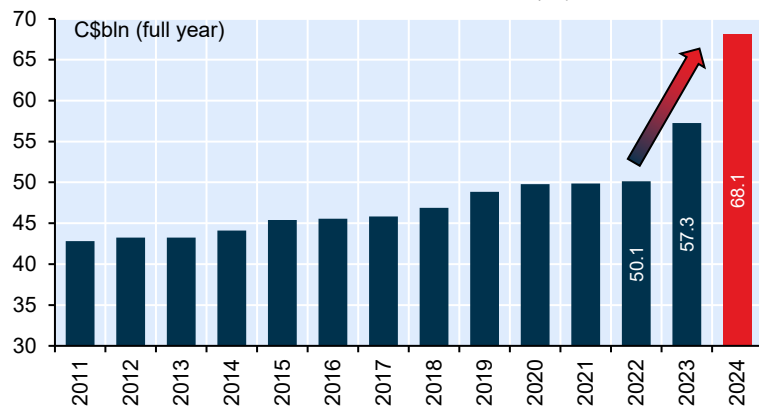
February 1st: In addition to kicking off a fresh quarter for Canadian banks, the turn of the month delivers a first course in what will be a steady serving of index-related cash flows, bond rolls, duration extensions, portfolio tweaks and central bank balance adjustments.

If you're counting cash, domestic bond investors will see *a lot* more of it in calendar 2024. This year's FTSE Canada Universe Bond Index interest payments look to be ~20% higher than last year and closer to 40% above 2022 levels (Chart 1). This extra cash reflects a larger stock of debt and a juicer weighted average coupon. On the face of it then, there's ample liquidity to be put to work, bond issuers seeming happy to feed well-heeled investors since the new year got started.

As always, Canada's bond cash is *heavily* concentrated, a disproportionate share arriving on a handful of days. February 1st may not compare to early June/December, but still ranks as an important day—the 14th largest cashflow of the year (Chart 2). That's down to the GoC's maturity dating protocol. One such Canada bond drops out of the index on Thursday (CAN 3.75% 1-Feb-2025, >\$14bln effective o/s). Elsewhere, a single bond rolls from the 'mid' to the 'short' bucket on the 1st (NACN 5.023% 1-Feb-2029, \$750mln o/s).

Chart 1: More bonds x juicer coupons = loads more cash

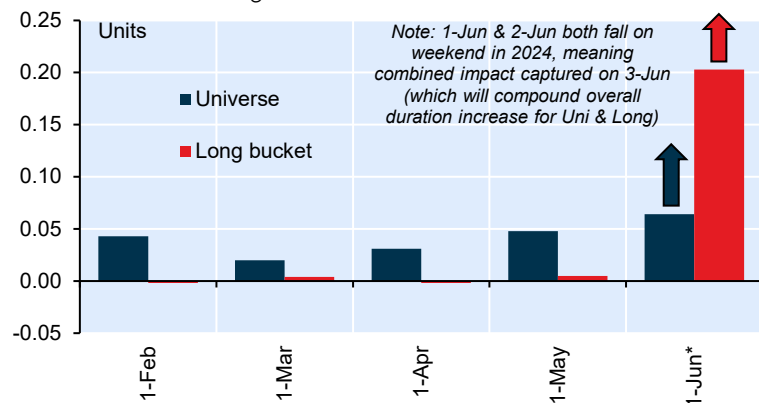
FTSE Canada Universe Bond Index scheduled interest payments



Source: NBF, FTSE Russell | Note: Based on constituents as at end of prior year

Chart 3: A bit of a warmup in terms of duration adjustment

Simulated duration change in FTSE Canada Universe Bond Index: 2024 dates



Source: NBF, FTSE Russell | Note: NBF simulations based on index pricing/constituents as at 26-Jan-24; assumes no change in yield curve; * falls on weekend

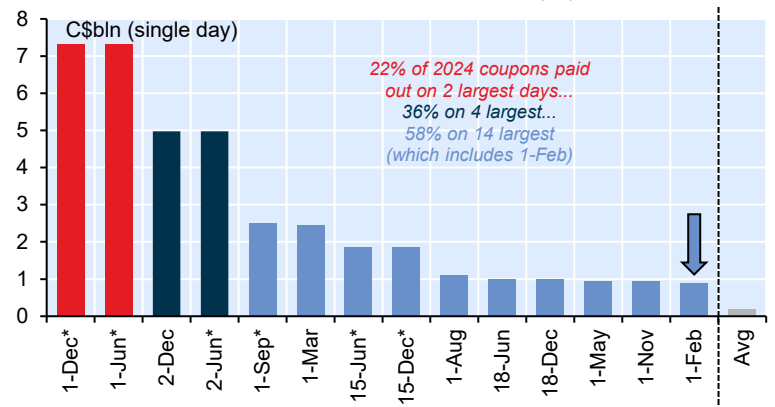
Our index simulations (which assume no shift in the yield curve) point to a 0.043 increase in modified duration for the FTSE Canada Universe Bond Index on February 1st. With no bonds rolling from 'long' to 'mid', the delta on duration for the closely watched 'long' bucket is relatively muted. It follows that this week's duration adjustments are *far less* material than what we will see in early June.

We're taking note of Thursday, February 1st for yet another reason. It's effectively the first Bank of Canada QT event of the year, the central bank holding seven of the nine GoC bonds maturing in 2024. While passive in nature, asset run-off at the BoC is meant to drain excess liquidity. As per last week's communications, the BoC still sees considerable runway for QT. We're nonetheless mindful of the front-end-loaded nature of their 2024 GoC bond run-offs. We're likewise eyeing overnight funding markets for signs of legit stress, appreciating that some special factors are surely contributing to above-target CORRA settings. Our related note on BoC QT can be accessed [here](#).

So regardless of your perspective, February 1st will serve as something of an amuse-bouche for Canadian fixed-income investors, whetting the appetite for ample and regular courses/adjustments to follow.

Chart 2: Feb 1st no Jun 1st/2nd, but nonetheless important

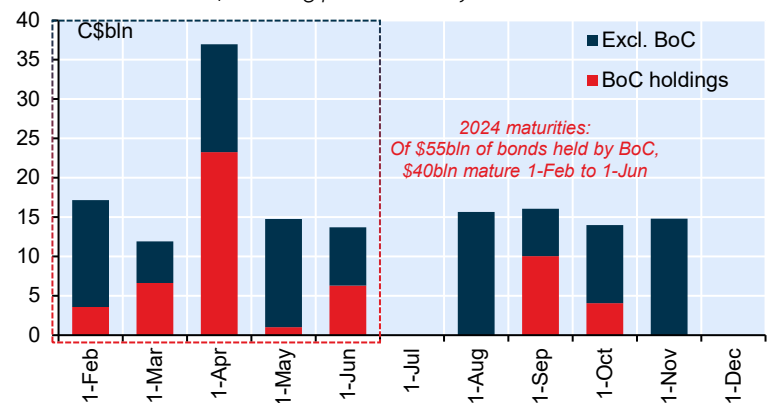
FTSE Canada Universe Bond Index scheduled interest payments: 2024



Source: NBF, FTSE Russell | Note: Based on constituents as at Dec-23; * falls on weekend

Chart 4: BoC QT front-end-loaded in 2024 and starts now

GoC bond maturities, including portion held by BoC: 2024



Source: NBF, BoC | Note: Outstandings/holdings as at 31-Dec-23; 2024 maturities only



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