

# March(ing) to cash in Canada's bond market

By Warren Lovely

With February drawing to a close, the next major cashflow event for Canada's bond market is inching closer: March 1<sup>st</sup>. Clearly, March (and its six-month echo in September) doesn't really compare with June (or December) in terms of bond cashflows and index impacts. Still, a few quick remarks (and accompanying charts) are in order.

There's \$2.6 billion in FTSE Canada Universe Bond Index coupons to be paid on Friday, March 1<sup>st</sup>. If you like keeping track of these things—and we know plenty that do—the index cash arriving this March 1<sup>st</sup> is over 40% greater than last year and ~70% above pre-COVID norms.

Notwithstanding enhanced cashflows, this year's bond roll-out effect is no more significant than in 2023 and really much less of a 'thing' than in many prior years. Based on the latest available data, the only bond dropping out of the Universe on March 1<sup>st</sup> is the CAN 1.25% Mar-25s, where effective outstandings (excluding BoC holdings) are a bit above \$5 billion. There's a more significant roll linked to the CAN 4% Mar-29s, where \$22 billion rolls from Mid to Short. For completeness, \$1.25 billion of the IADB 4.6% Mar-29s also rolls Mid to Short. These

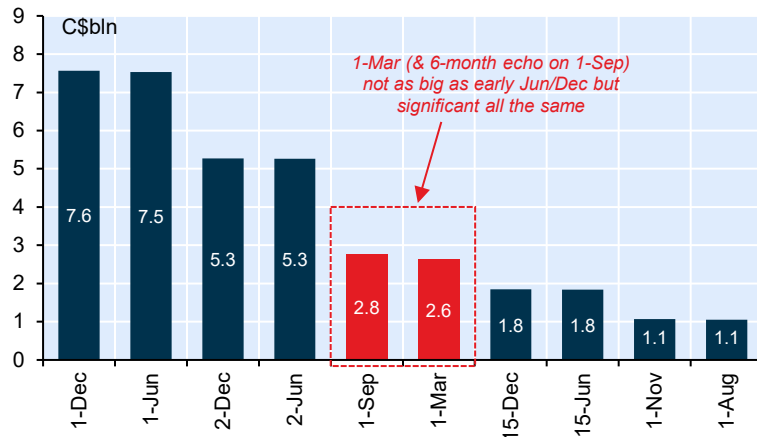
intra-index rolls will trigger material adjustments in the weight and duration of both the Short and Mid buckets. As for Longs...

Canada's federal government does not use March 1<sup>st</sup> as a benchmark maturity dating for *conventional*/10- or 30-year bonds\*. Thus, March 1<sup>st</sup> doesn't generally produce duration fireworks in the Long bucket the way June 1<sup>st</sup> or December 1<sup>st</sup> often can. This year is really no different, even if a \$550 million Hydro One security rolls out of the Long end. [Note: March 1<sup>st</sup> has just been used for a brand-new 10-year Canada Green Bond, announced Monday pursuant to a fresh framework. Final sizing/pricing/details to come.]

So echoing our earlier preview of February 1<sup>st</sup> cash/index impacts, you can think of March 1<sup>st</sup> as another warm-up for the much more material index and portfolio gymnastics set to come in early June. Finally, while we've keyed on March 1<sup>st</sup> (and GoC), there are notable CMB index impacts coming March 15<sup>th</sup>, including for the Long bucket. Note that these prospective mid-March tweaks should follow on the heels of the first 5-year fixed CMB offering in the hybrid-consolidation era.

**Chart 1: March 1<sup>st</sup> a non-trivial bond index cashflow day**

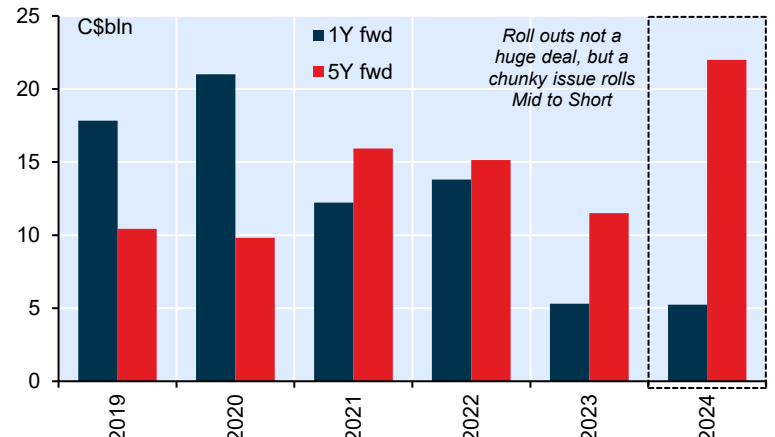
FTSE Canada Universe Bond Index: Largest coupon payments in coming year



Source: NBF, FTSE Russell | Note: Generated using pricing/constituents as at 23-Feb-24

**Chart 2: GoC bond rolls always a story on March 1<sup>st</sup>...**

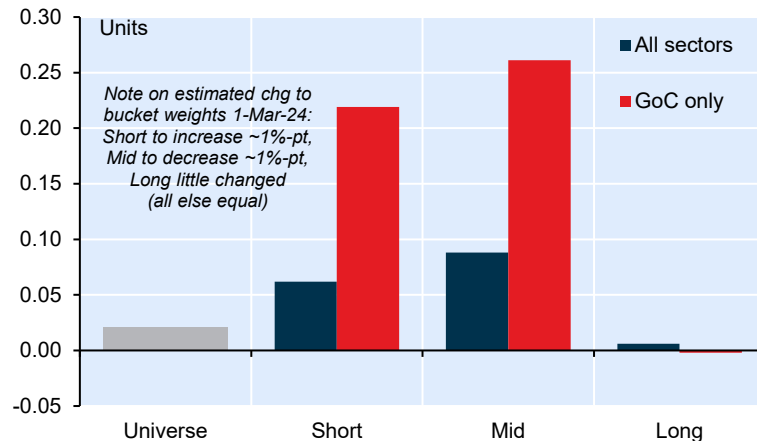
GoC bonds maturing in 1 & 5 years as at 1-Mar, excluding BoC holdings



Source: NBF, GoC | Note: For 2024, 1Y fwd refers to 1-Mar-25 & 5Y fwd refers to 1-Mar-29

**Chart 3: ... although March 1<sup>st</sup> impact on Long bucket muted**

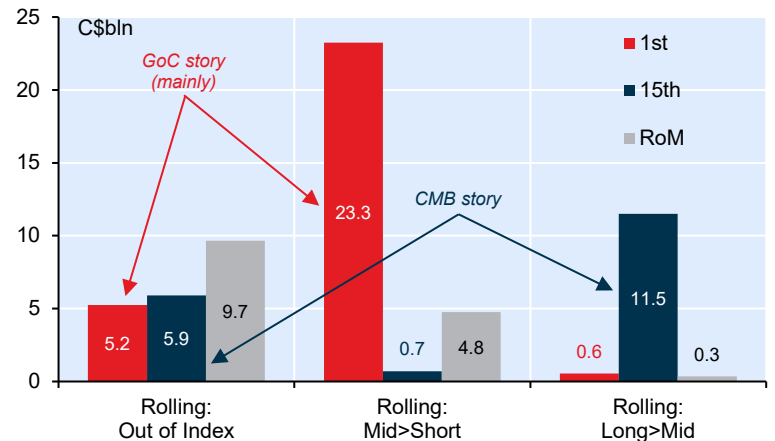
Simulated duration change in FTSE Canada Universe Bond Index: 1-Mar-2024



Source: NBF, FTSE Russell | Note: NBF simulations based on index pricing/constituents as at 23-Feb-24; assumes no change in yield curve; other sector details available on request

**Chart 4: Don't forget about March 15<sup>th</sup> CMB impacts**

Value of bonds rolling out/over of FTSE Canada Universe Bond Index: Mar-24



Source: NBF, FTSE Russell | Note: Based on current holdings, using pricing/constituents as at 23-Feb-24



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