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After party in provincial credit? Why not!

By Warren Lovely

It's here! It's finally here! No, not Christmas, which is still a few weeks away. Alas, a very special season for Canada's bond market has commenced, as super-sized cashflows hit investor accounts and hefty issues roll (out of the universe or from one sector to another). Understandably, December 1st—a GoC story more than anything—gets loads of attention. But tomorrow, December 2nd, is another undeniably important event, particularly for the provincial government sector.

Here's a provi-centric look at what's in store. It's striking stuff. After all, provincial coupons/index cashflows are as concentrated as they come. December 2nd and its six-month echo are most significant of all (Chart 1). As for bond rolls, four provincial securities are on our 'roll radar' this December 2nd, three of which were issued by the largest name in the sector: Ontario (Chart 2). It perhaps follows that the simulated change in modified duration of the provincial sector looks genuinely significant. The extension to the 'Long' bucket is most noteworthy, though the relative weighting is set to temporarily recede there. Again, December 2nd duration adjustments will be overwhelmingly an Ontario story (Chart 3).

As for what all this seasonal cash and extended duration means for the provincial sector, let's just say its supportive *ceteris paribus*. Only once in the past decade has the Ontario 10-year spread vs. GoC failed to tighten in December. That was in 2018. Testifying to today's underlying demand for high grade, liquid provis, Ontario spreads snuggled up on the first of December (Chart 4), building on an impressive November showing.

One caveat: Provincial issuers are astute enough to react to seasonal pockets of demand (Chart 5). Looking back, the first few days of December have historically been some of the busiest of the year supply wise. While 2025-26 fiscal year borrowing programs are nicely advanced, that won't stop some provinces from reacting to favourable market conditions. A seasonal dose of supply could modulate the near-term path for spreads. And not for nothing, Ontario 10s currently reside at the richest level vs. the GoC curve in the post-GFC period. Relative location is perhaps a consideration for some. But to us, there are good reasons to expect sustained tight G spreads. Beyond a cheery short-term seasonal window, we remain fundamentally constructive on the provincial sector.

Chart 1: Provi cash uber concentrated

Provi sector cashflows by key date(s): Next 365 days

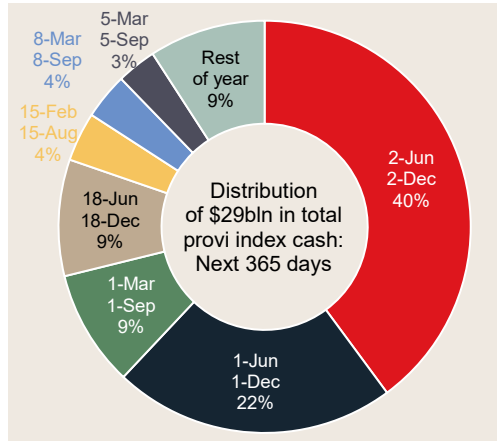


Chart 2: Four bonds roll on Tuesday

Provi sector bonds rolling out/over on 2-Dec-25

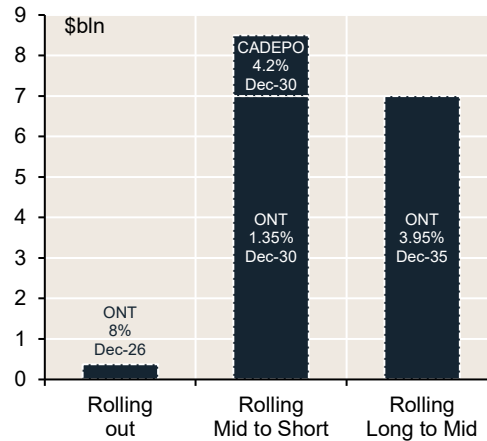
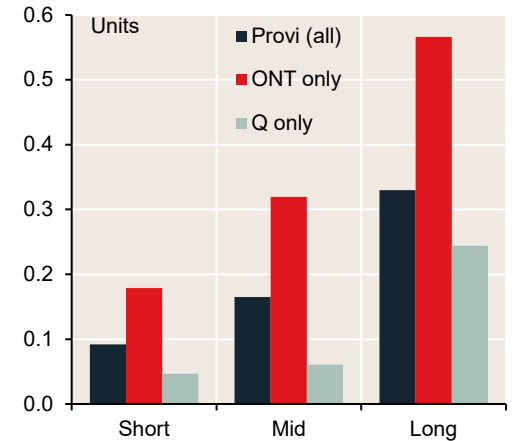


Chart 3: Duration added (notably for ONT)

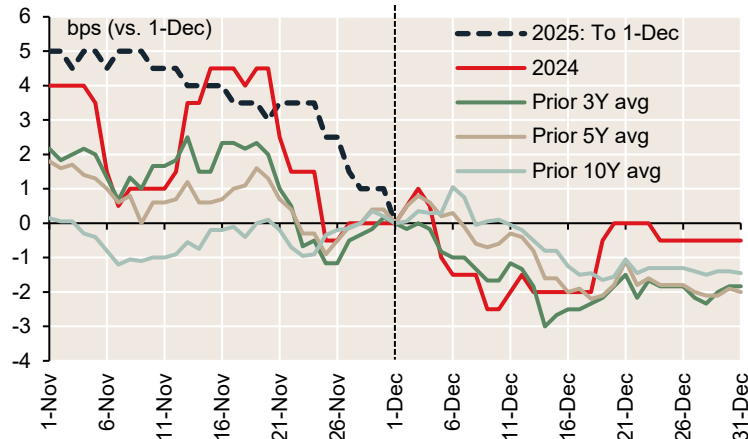
Simulated chg in provi duration: 30-Nov to 2-Dec



Sources: NBC, FTSE Russell | Notes to Charts 1-3: Provincial sector only; projected cashflows based on coming one year as of end of Nov-25; no provincial bonds roll out or roll over on 1-Dec-25; duration simulations cover two-day period (i.e., 1-Dec-25 and 2-Dec-25); based on provincial index constituents & pricing as of 30-Nov-25; simulations assume no change in yield curve

Chart 4: Seasonal performance in provincial G spreads? Yes

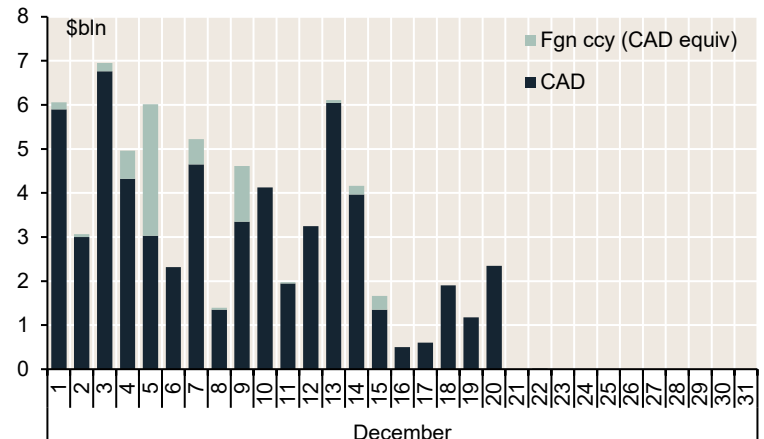
Evolution of Ontario 10-year constant maturity spread vs. GoC: Indexed to 1-Dec



Source: NBC | Note: Based on constant maturity indications; CAD market; 2025 is ongoing

Chart 5: Not surprisingly, provi market often well supplied

Distribution of provincial bond issuance by day & currency: Month of December



Source: NBC, BBG | Note: Based on \$68.4bn (CAD equiv) supply from Dec-10 to Dec-24



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