Market View
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Never too soon for June (seasonal bond market analysis that is)

By Warren Lovely

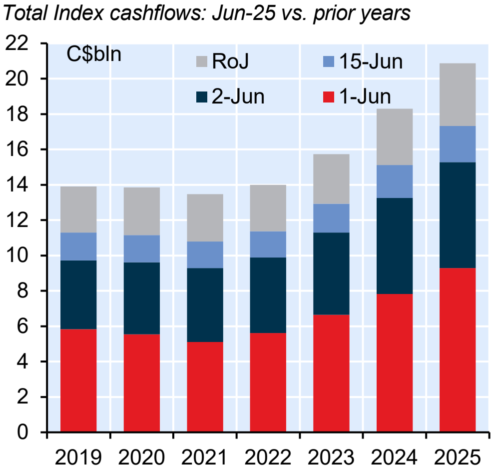
Bond market participants tend to keep particularly important dates top of mind. Here in Canada, June 1st/2nd (plus the six-month echoes on December 1st/2nd) are about as momentous as they come. All else equal, 2025 promises some seasonal fireworks.

With effective outstandings having stepped up, there's more cash being paid to end investors than ever. And a significant number of bonds (some of very chunky size) will either roll right *out* of the universe or will roll *over* from one bucket to another. It means an extra-large dose of duration will be added to bond indices, *ceteris paribus*. The specific nature of June 1st/2nd adjustments means more pronounced impacts in the 'Long' end. Nothing new there, although the magnitude of coming bond rolls and prospective duration adjustments are genuinely striking.

To whet your appetite, this *Market View* includes an overview of the looming index adjustments coming June 2nd (since June 1st falls on a weekend). Additional index-specific analysis will follow in a *Market View Supplement*. We also use these pages to explore seasonal tendencies in Canadian rates, leaning into a 15-year sample to identify prospective implications for outright yields, curves, flies and all sorts of cross-market variables. As for our standard caution: All else is not always equal!

Chart 1: It's June, so cash is king!

Total Index cashflows: Jun-25 vs. prior years



Source: NBC, FTSE Russell | Note: As at 1-May each year

Table 1: June 1st falls on weekend…

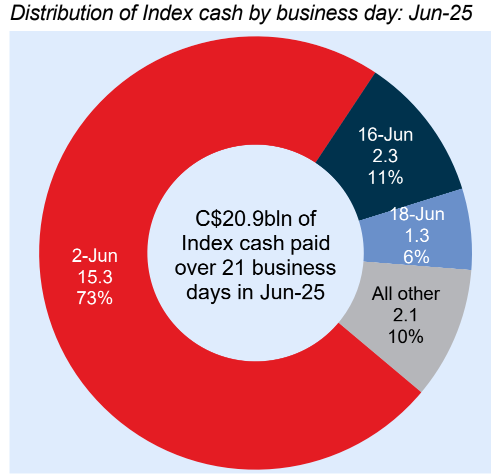
Day of week: Key June cashflows over the years

	June			
	1st	2nd	15th	18th
2025	**Sun**	**Mon**	**Sun**	**Wed**
2024	Sat	Sun	Sat	Tue
2023	Thu	Fri	Thu	Sun
2022	Wed	Thu	Wed	Sat
2021	Tue	Wed	Tue	Fri
2020	Mon	Tue	Mon	Thu
2019	Sat	Sun	Sat	Tue
2018	Fri	Sat	Fri	Mon
2017	Thu	Fri	Thu	Sun
2016	Wed	Thu	Wed	Sat
2015	Mon	Tue	Mon	Thu
2014	Sun	Mon	Sun	Wed
2013	Sat	Sun	Sat	Tue
2012	Fri	Sat	Fri	Mon
2011	Wed	Thu	Wed	Sat
2010	Tue	Wed	Tue	Fri
Focus >	*GoC*	*Provi*	*CMB*	*Provi*

Source: NBC

Chart 2: … so June 2nd jumbo cash day

Distribution of Index cash by business day: Jun-25

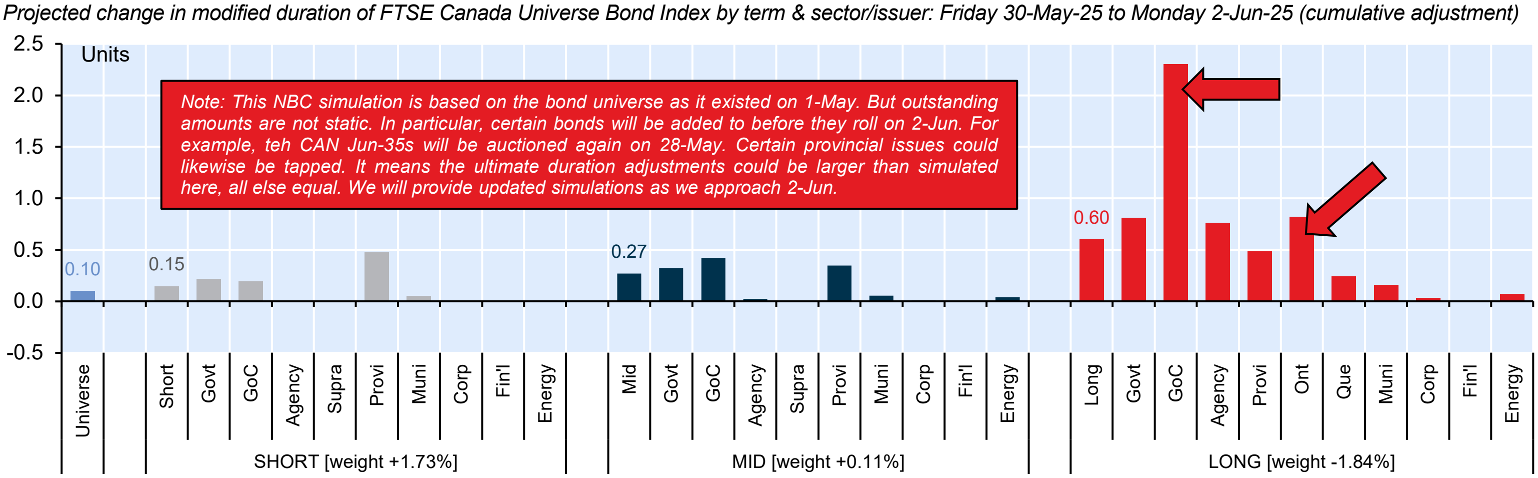


Source: NBC, FTSE Russell | Note: As of 1-May-25

As it stands, a record amount of FTSE Canada Universe Bond Index cash is set to flow this June ($20.9 billion for the month as a whole). Index-related cashflows are 14% higher than Jun-24 and fully 50% higher than five years ago. Note that a couple of the largest cashflow days fall on a weekend this year (including the 1st), concentrating cash even more. We saw this last year too.

Chart 3: Dissecting prospective duration adjustments this June 2nd, with long end the obvious focal point

Projected change in modified duration of FTSE Canada Universe Bond Index by term & sector/issuer: Friday 30-May-25 to Monday 2-Jun-25 (cumulative adjustment)

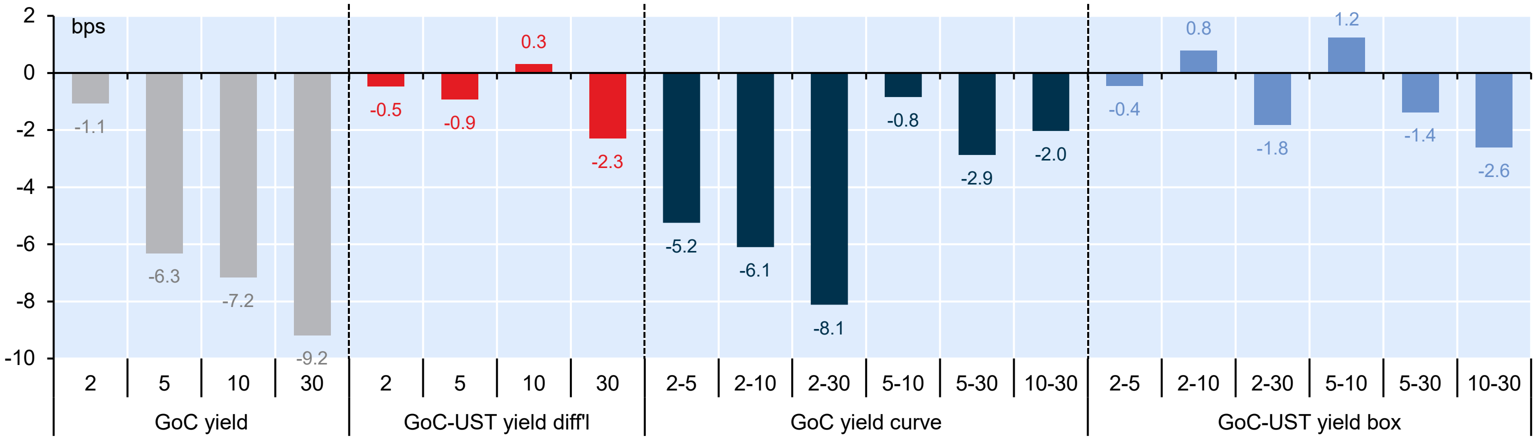


Source: NBC, FTSE Russell | Note: Duration change based on NBC simulations using 1-May-25 closing values/constituents; assumes no change in yield curve; 3-day change vs. 30-May-25

Based on the FTSE Canada Universe Bond Index as constituted on May 1st, simulated coupon/roll effects would (at this moment) add +0.10 duration to the Universe on June 2nd. That's inclusive of June 1st effects, which falls on a weekend. With 11 bonds currently totaling $45.5 billion set to roll from 'Long' to 'Mid', the prospective duration add to the 'Long' bucket looks unprecedented (for early June) at +0.60. Prior-year simulations (using May 1st compositions) put the equivalent 'Long' duration increase at +0.49 for both 2024 and 2023, and +0.38 five years ago. We stress that the Universe will evolve in the coming month. Certain 2035 issues will be even larger by the time they roll on June 2nd, implying the ultimate duration increase would be even larger (all else equal).

Chart 4: June's wall of cash has tended to leave mark on Canadian rates (although average moves to be treated with caution)

Average change (net) in GoC interest rates (yields, curves, butterflies, vs. UST) in 20 weekdays prior to 1-Jun (15Y sample, 2010-24)

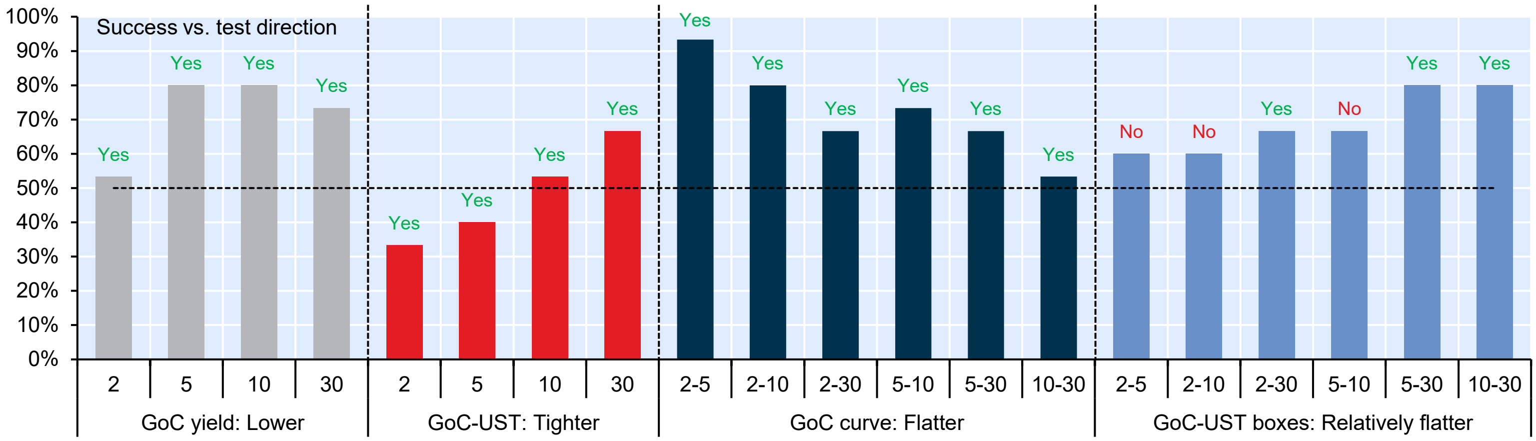


Source: NBC, BBG

We've extended our analysis of rates seasonals another year, leveraging an empirical sample that now runs to 15 years (i.e., 2010 to 2024 inclusive). Average moves surely don't tell the whole story, but the past performance record going into June 1st (or in this case June 2nd) is generally consistent with 'a priori' assumptions, including absolute and relative performance for Canada's long end.

Chart 5: Searching for consistently profitable trades, with pre-cash tendencies (mostly) respected last year (i.e., in 2024)

Past success rates vs. expected direction in GoC interest rates (yields, curves, butterflies, vs. UST) in 20 weekdays prior to 1-Jun (15Y sample, 2010-24)

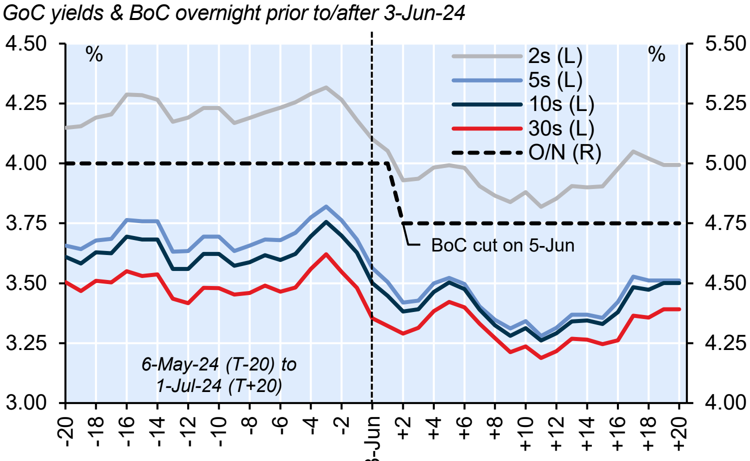


Source: NBC, BBG | Note: Success based on actual move vs. expected direction in lead up to 1-Jun for 15Y post-GFC sample; 'Yes' or 'No' refers to last year's success (i.e., 2024)

Based on our 15-year sample, you can see some consistently successful aspects heading into Canada's lumpy June cashflows. Of course, past performance is no guarantee of future success; nor will you find 100% success rates in any particular element. Curve flatteners have routinely worked, with cross-market performance (vs. USTs) tending to be more consistent out the curve.

Chart 6: An assist to BoC last year, as easing cycle started

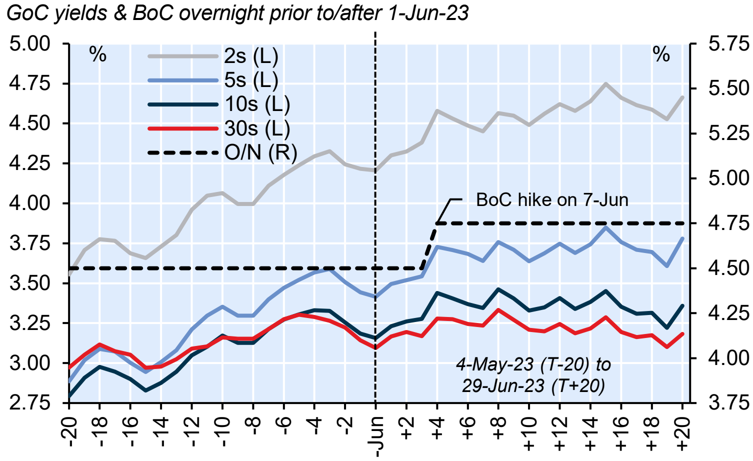
GoC yields & BoC overnight prior to/after 3-Jun-24



Source: NBC, BBG | Note: Weekdays relative to 3-Jun-24 (since 1st/2nd fell on weekend)

Chart 7: Whereas Jun-23 delivered less-than-fully priced hike

GoC yields & BoC overnight prior to/after 1-Jun-23

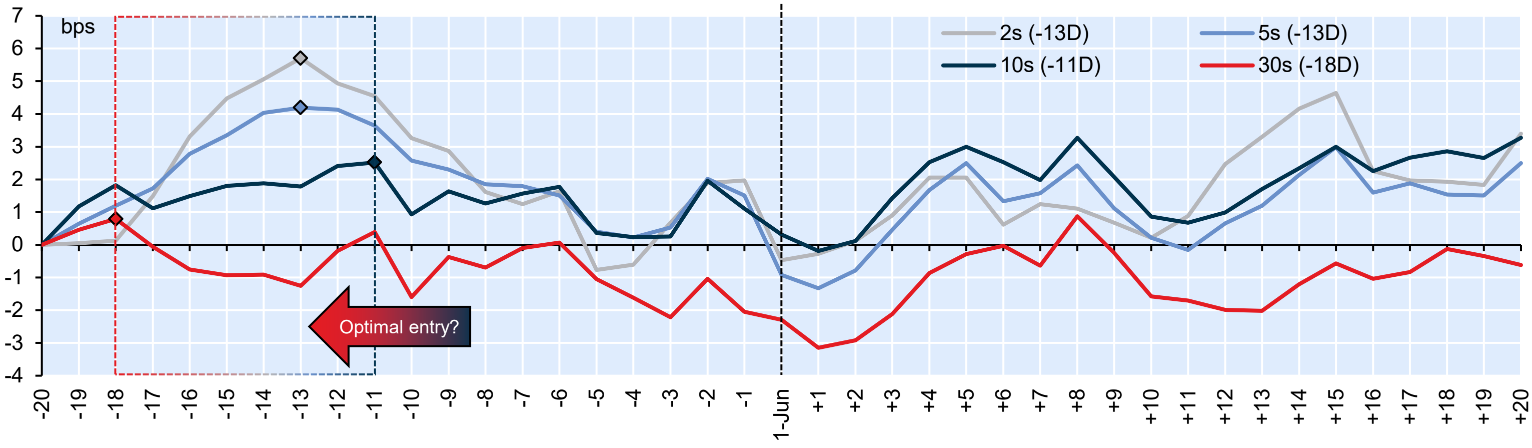


Source: NBC, BBG | Note: Weekdays relative to 1-Jun-23

Beyond seasonal coupons/rolls, there's always plenty to control for, including the BoC. The expected direction of travel was well observed last year but give an assist to a June 5th BoC rate cut—the first of the cycle—that wasn't fully priced. The opposite occurred in mid-2023, when some seasonal trends failed to emerge as the BoC opted for a less-than-fully priced hike. As for this year, markets aren't yet convinced that the BoC will be cutting on June 4th. We see a good chance that the Bank does indeed opt to ease, which could trigger some rates re-pricing, including in the cross-market.

Chart 8: Optimal entry vs. USTs generally 11-18 weekdays prior to start of June (the notional window being May 7th to 16th)

Cumulative change in GoC-UST yield differentials prior to/after 1-Jun (or next good business day)

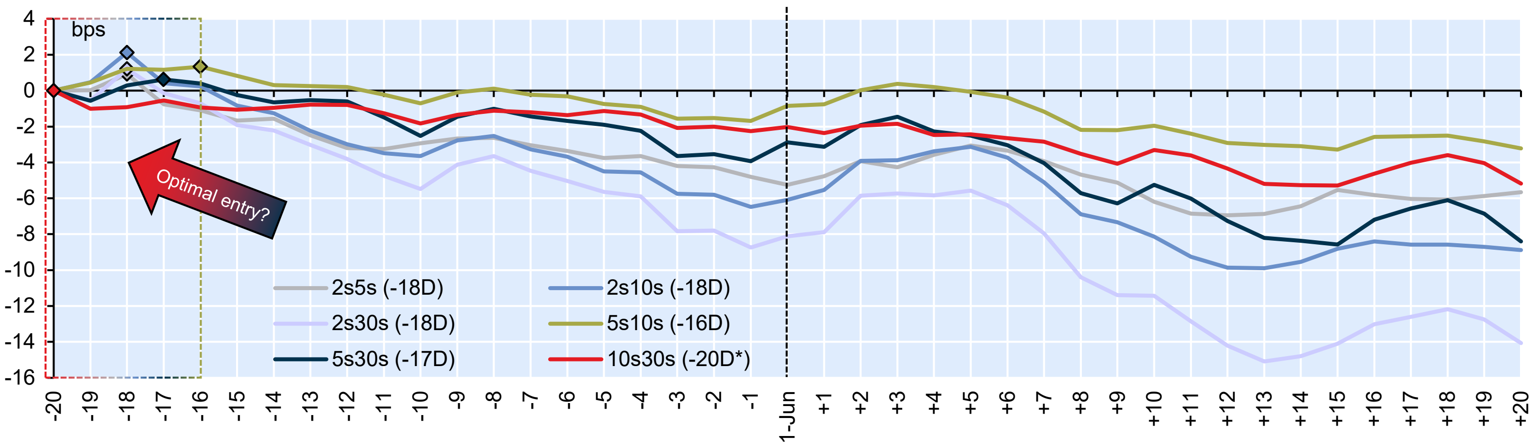


Source: NBC, BBG | Note: Markets & label values in (:) denote optimal entry vs. 1-Jun (or next good business day); 15Y sample (2010-24)

In testing the early June effect, the 'a priori' assumption is for lower yields, flatter curves and/or outperformance vs. USTs (where bond maturities are less concentrated). On the latter point—cross-market—average patterns traced out over our 15-year sample hint at an optimal entry window (long GoC, short UST) some 11 to 18 days prior to the start of June. That's coming up.

Chart 9: It's generally paid to put curve flattener on at least 16 weekdays before June 1st (no later than May 9th on average)

Cumulative change in GoC yield curves prior to/after 1-Jun (or next good business day)

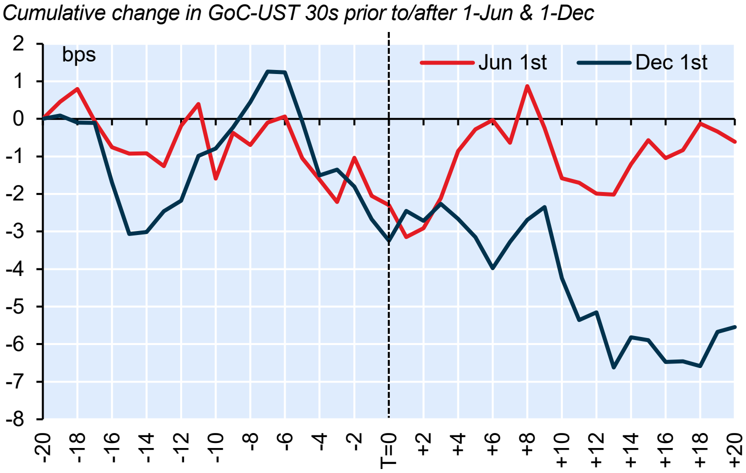


Source: NBC, BBG | Note: Markers & label values in (:) denote optimal entry vs. 1-Jun (or next good business day); 15Y sample (2010-24)

Similar to the average cross-market patterns from Chart 8, the empirical record highlights a reasonably consistent flattening tendency for GoC yield curves. While not offering a guarantee, historical averages suggest that it could pay to put a flattener on well in advance of the outsized coupon/roll effects. If you put any stock in this seasonal analysis, the optimal entry window is neigh.

Chart 10: A less-lasting impact vs. USTs (vs. 1-Dec)

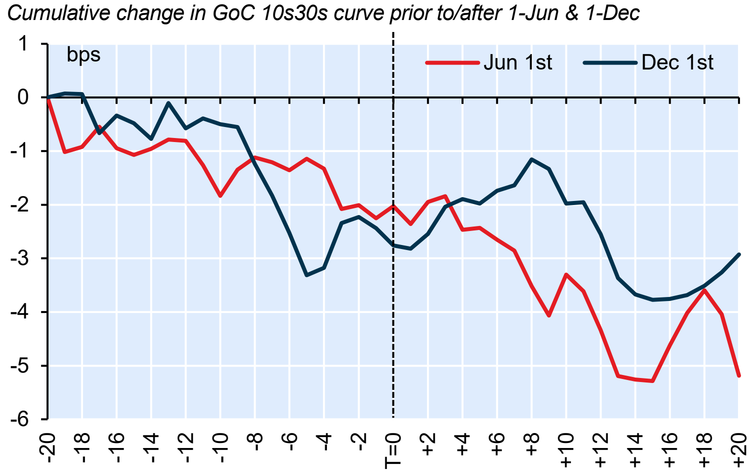
Cumulative change in GoC-UST 30s prior to/after 1-Jun & 1-Dec



Source: NBC, BBG | Note: Weekdays relative to 1-Jun or 1-Dec; 15Y sample (2010-24)

Chart 11: Curve flattening tendency can linger

Cumulative change in GoC 10s30s curve prior to/after 1-Jun & 1-Dec

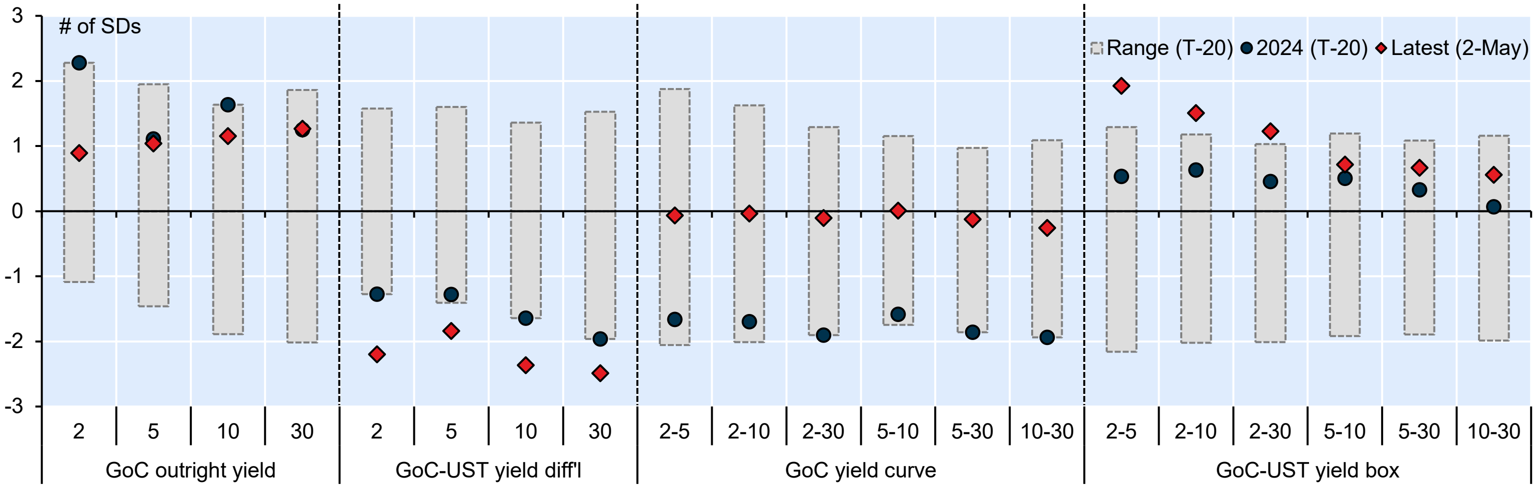


Source: NBC, BBG | Note: Weekdays relative to 1-Jun or 1-Dec; 15Y sample (2010-24)

Notwithstanding seasonal support in the long end, as we've cautioned previously, Canada's relative performance vs. Treasuries tends to fade post June 1st (at least on average). As per Chart 10, GoC-UST 30-year differentials have, on average, been little better by the end of June than they were at the start of May. Some GoC yield curve flatteners, however, appear to have greater legs.

Chart 11: Cross-market levels quite tight but curves no longer out of line vs. where things have traditionally stood

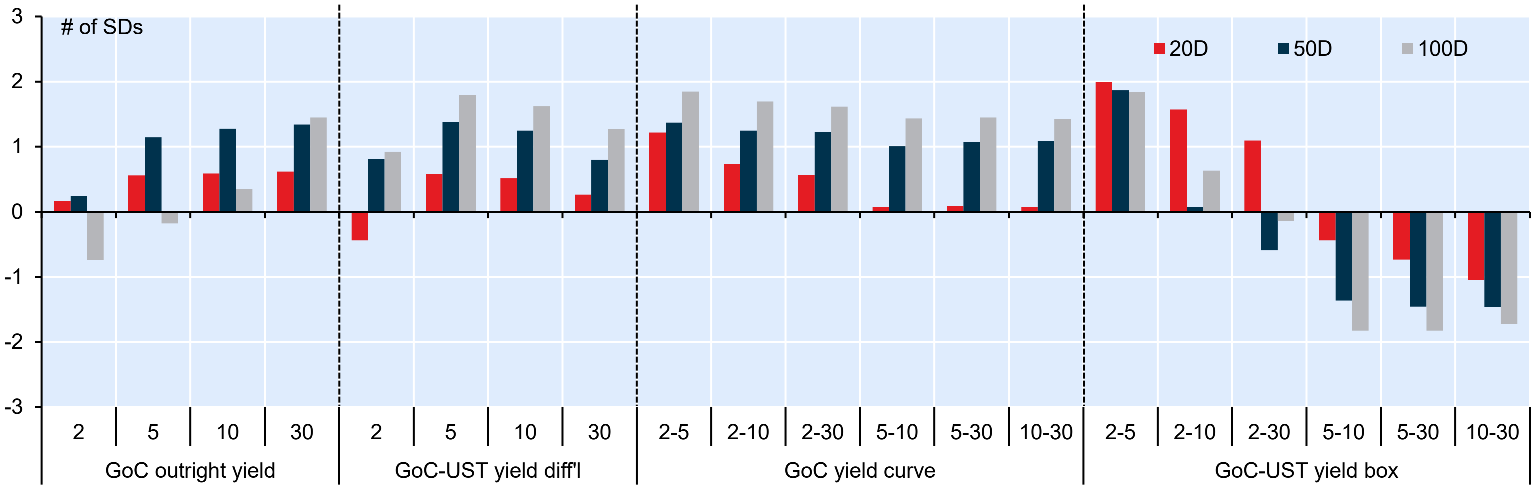
Valuation snapshot: Relative deviation of current GoC interest rates from historical average observed 20 weekdays prior to 1-Jun (15Y sample, 2010-24)



Source: NBC, BBG | Note: Latest levels refer to 2-May-25; shaded range refers to max/min recorded T-20D for 15Y sample (2010-24); 2024 valuations included for more timely reference

Chart 12: A shorter-term assessment of curves and relative yield differentials (again taking Z-score approach)

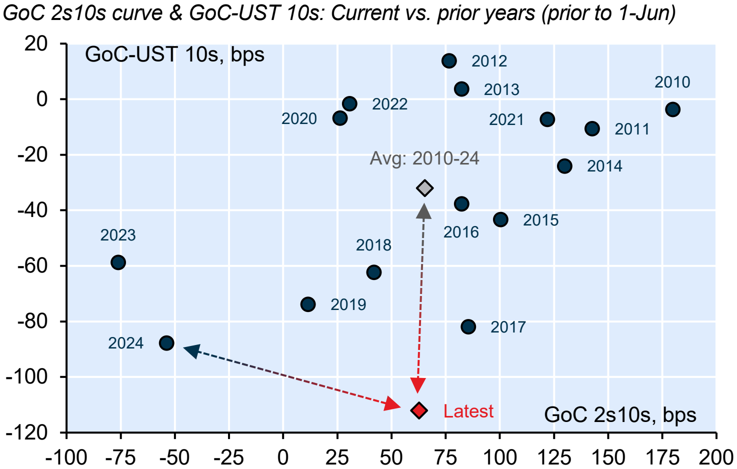
Valuation snapshot: Relative deviation of current GoC interest rates from recent averages (20D, 50D, 100D)



Source: NBC, BBG | Note: Relative to levels from 2-May-25

Chart 13: Richer than average but not as flat

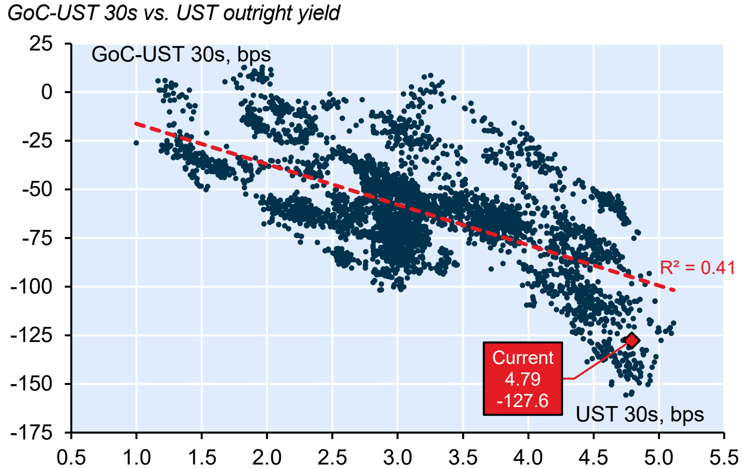
GoC 2s10s curve & GoC-UST 10s: Current vs. prior years (prior to 1-Jun)



Source: NBC, BBG | Note: Latest refers to 2-May-25; prior years are 20D prior to 1-Jun

Chart 14: Further perspective on longs (relative to USTs)

GoC-UST 30s vs. UST outright yield



Source: NBC, BBG | Note: Latest refers to 2-May-25; daily levels from Jan-20 onwards

Reflecting on current levels/relative location, we remain in irregular territory in some important respects. That's particularly true of GoC-UST differentials. Notwithstanding some meaningful cheapening relative to early in the year, GoC-USTs 10s (as but one measure) remain at relatively richer level… at least richer than has historically been witnessed in/around early May. Mind you, a BoC rate cut in early June (which we currently deem likely), could lend some near-term support (if ultimately delivered). As for GoC yield curves, we've steepened (or disinverted) in quite material fashion compared to this time last year. Statistically speaking, many key GoC yield curves now look to be in more 'normal' territory relative to the historical record.

Table 2: A closer examination of average historical performance in/around June 1st

Average move (net) & success rates in GoC interest rates (yields, curves, butterflies, vs. UST) & provincial credit in days before/after 1-Jun (15Y sample, 2010-24)

		GoC outright yield				GoC yield curve						GoC butterfly			
Wk days		2-year	5-year	10-year	30-year	2s-5s	2s-10s	2s-30s	5s-10s	5s-30s	10s-30s	2s-5s-10s	2s-5s-30s	2s-10s-30s	5s-10s-30s
Before 1-Jun	-20	-1.1	-6.3	-7.2	-9.2	-5.2	-6.1	-8.1	-0.8	-2.9	-2.0	-4.4	-2.4	-4.1	1.2
	-10	-6.4	-8.7	-8.8	-9.0	-2.3	-2.5	-2.6	-0.1	-0.3	-0.2	-2.2	-2.0	-2.3	0.0
	-5	-3.4	-4.9	-5.0	-5.9	-1.5	-1.6	-2.5	-0.1	-1.0	-0.9	-1.4	-0.5	-0.7	0.8
	-3	-4.9	-5.9	-5.2	-5.2	-1.1	-0.3	-0.3	0.7	0.8	0.1	-1.8	-1.8	-0.4	0.7
	-2	-4.2	-5.2	-4.5	-4.5	-1.0	-0.3	-0.3	0.7	0.7	0.0	-1.7	-1.6	-0.3	0.7
	-1	-2.8	-3.2	-2.4	-2.2	-0.4	0.4	0.6	0.8	1.1	0.2	-1.3	-1.5	0.2	0.6
After 1-Jun	+1	2.1	2.6	2.7	2.3	0.5	0.6	0.2	0.1	-0.3	-0.3	0.4	0.7	0.9	0.4
	+2	1.2	2.5	3.4	3.5	1.3	2.2	2.3	0.9	0.9	0.1	0.4	0.4	2.1	0.8
	+3	2.3	3.3	4.5	4.7	1.0	2.2	2.4	1.2	1.4	0.2	-0.2	-0.4	2.0	1.0
	+5	5.7	7.9	8.7	8.3	2.2	3.0	2.6	0.8	0.4	-0.4	1.4	1.8	3.4	1.2
	+10	6.4	5.5	4.4	3.1	-0.9	-2.0	-3.3	-1.1	-2.4	-1.3	0.2	1.4	-0.8	0.2
	+20	9.3	8.9	6.5	3.4	-0.4	-2.8	-5.9	-2.4	-5.5	-3.2	2.0	5.1	0.4	0.8
Success rate (%)	-20	53%	80%	80%	73%	93%	80%	67%	73%	67%	53%	60%	60%	80%	53%
	-10	60%	60%	80%	80%	80%	80%	60%	53%	60%	60%	80%	60%	53%	53%
	-5	60%	67%	67%	73%	67%	53%	67%	53%	53%	60%	53%	53%	73%	53%
	+5	27%	40%	20%	20%	27%	33%	47%	47%	47%	60%	47%	40%	33%	33%
	+10	33%	40%	40%	47%	53%	60%	60%	60%	67%	73%	60%	47%	47%	40%
	+20	40%	40%	40%	47%	60%	73%	67%	53%	60%	53%	40%	47%	60%	53%
Test >		*Lower yield*				*Flatter yield curve*						*Belly performance*			

		GoC-UST yield differential				GoC-UST yield box						Canada-US "Fly Trap"			
Wk days		2-year	5-year	10-year	30-year	2s-5s	2s-10s	2s-30s	5s-10s	5s-30s	10s-30s	2s-5s-10s	2s-5s-30s	2s-10s-30s	5s-10s-30s
Before 1-Jun	-20	-0.5	-0.9	0.3	-2.3	-0.4	0.8	-1.8	1.2	-1.4	-2.6	-1.7	0.9	3.4	3.8
	-10	-3.7	-3.5	-0.6	-0.7	0.2	3.1	3.0	2.9	2.8	-0.1	-2.7	-2.6	3.2	3.0
	-5	0.3	-1.3	0.0	-1.2	-1.6	-0.3	-1.5	1.3	0.1	-1.2	-2.9	-1.7	0.9	2.5
	-3	-1.2	-1.4	0.1	-0.1	-0.3	1.2	1.1	1.5	1.4	-0.1	-1.8	-1.7	1.4	1.6
	-2	-2.4	-2.9	-1.6	-1.3	-0.6	0.7	1.1	1.3	1.7	0.4	-1.9	-2.3	0.3	0.9
	-1	-2.4	-2.4	-0.8	-0.2	0.0	1.6	2.2	1.6	2.2	0.5	-1.6	-2.2	1.1	1.1
After 1-Jun	+1	0.2	-0.4	-0.5	-0.9	-0.6	-0.7	-1.1	-0.1	-0.4	-0.4	-0.5	-0.2	-0.3	0.3
	+2	0.6	0.1	-0.2	-0.6	-0.5	-0.8	-1.2	-0.3	-0.8	-0.4	-0.1	0.3	-0.4	0.1
	+3	1.4	1.4	1.1	0.2	0.0	-0.3	-1.2	-0.3	-1.2	-0.9	0.3	1.2	0.7	0.7
	+5	2.5	3.4	2.7	2.0	0.9	0.1	-0.5	-0.7	-1.4	-0.7	1.6	2.3	0.8	-0.1
	+10	0.7	1.1	0.6	0.7	0.4	-0.1	0.0	-0.6	-0.4	0.2	1.0	0.9	-0.3	-0.7
	+20	3.9	3.4	3.0	1.7	-0.5	-0.9	-2.2	-0.5	-1.7	-1.3	0.0	1.3	0.4	0.8
Success rate (%)	-20	33%	40%	53%	67%	60%	60%	67%	67%	80%	80%	53%	33%	40%	40%
	-10	60%	67%	53%	53%	53%	47%	47%	40%	47%	47%	60%	53%	47%	33%
	-5	60%	47%	53%	60%	60%	60%	60%	60%	60%	53%	67%	60%	47%	40%
	+5	47%	33%	33%	47%	47%	67%	60%	53%	60%	60%	33%	40%	40%	40%
	+10	47%	47%	47%	47%	47%	60%	60%	53%	53%	47%	47%	40%	47%	47%
	+20	40%	60%	47%	53%	67%	60%	53%	33%	40%	53%	53%	53%	53%	53%
Test >		*Relatively tighter yield vs. US*				*Relatively flatter yield curve vs. US*						*Relative outperformance of Canada belly*			

Source: NBC, BBG | Note: Based on weekdays; success rates calculated over 15Y period covering 2010-24; success rates reflect the percentage of time the expected direction of trade held in pre- & post-cash period; examples of the 'a priori' direction of trade include: Canada outright = lower yield; Canada curve = flatter; Canada-US yield differential = tighter/narrower; refer to "Test" for expected direction

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