

Labouring over September 1st bond index adjustments

By Warren Lovely

September 1st—still more than two weeks away—is a special day. It's Labour Day and thus the last long weekend before most kids head back to school. For Canada's domestic bond market, September 1st has morphed into an increasingly important day, complete with outsized cashflows and chunky rolls. This year's index impacts will ultimately be captured on Tuesday, September 2nd, owing to the holiday Monday.

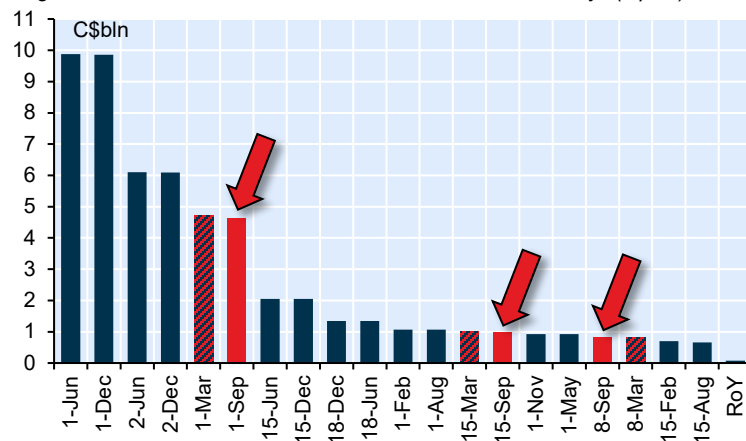
This targeted *Market View* puts this year's cashflows, bond rolls and simulated duration impacts in context. The punch line(s)... For starters, there's more bond cash flowing this September than ever before. At present, nearly ten securities with current effective outstandings of over \$70 billion will see their index status change on the first business day of the month, either rolling out of the FTSE Canada Universe Bond Index or rolling down from one bucket to another. The duration of the

Universe will extend as coupon/roll impacts are captured, though the overall impact will be less significant than in 2024 (since less weight is dropping out). Taking a more specific approach, the extra duration expected to be added to the 'Short' and 'Mid' buckets should come mainly (but not exclusively) via the GoC (i.e., captured in the 'Federal Non-Agency' sector). In contrast, the more modest duration we see being added to the 'Long' bucket is a provincial story (tied to Quebec).

As a reminder, September 8th and 15th—which are both good business days in 2025—are two other notable coupon/roll days. The former (the 8th) is linked to the provincial sector (namely Ontario). The latter (the 15th) is all about Canada Mortgage Bonds, where a fresh re-opening of a focus 10-year bond (the CANHOU 3.6% 15-Sep-2035s) looms.

Chart 1: September includes some notable cashflow days

Largest FTSE Canada Universe Bond Index interest income days (top 20)

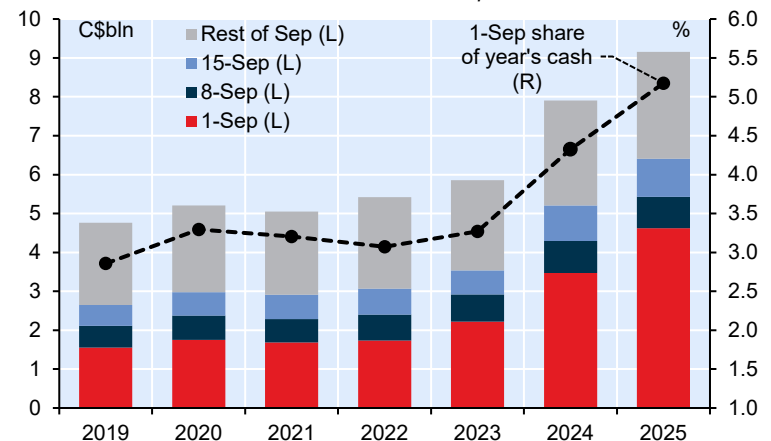


Source: NBC, FTSE Russell | Note: Based on daily projections, using 11-Aug closes

September 1st is a top-6 cashflow day for Canada's domestic bond market. While less significant than the first of the month, September 8th and September 15th are also generally on our radar. In all, September coupon payments have become a more significant consideration in recent years, increasing in absolute dollars and also as a relative share of full-year index-related cashflows.

Chart 2: September cashflows have grown over time

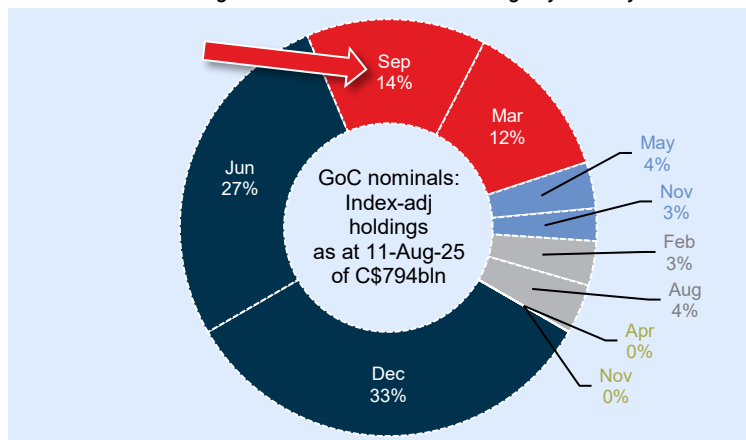
FTSE Canada Universe Bond Index cashflows: September



Source: NBC, FTSE Russell | Note: Generated using 11-Aug to 13-Aug closes for each year

Chart 3: September (& March) key GoC maturity month

Distribution of index-eligible* GoC nominal bond holdings by maturity

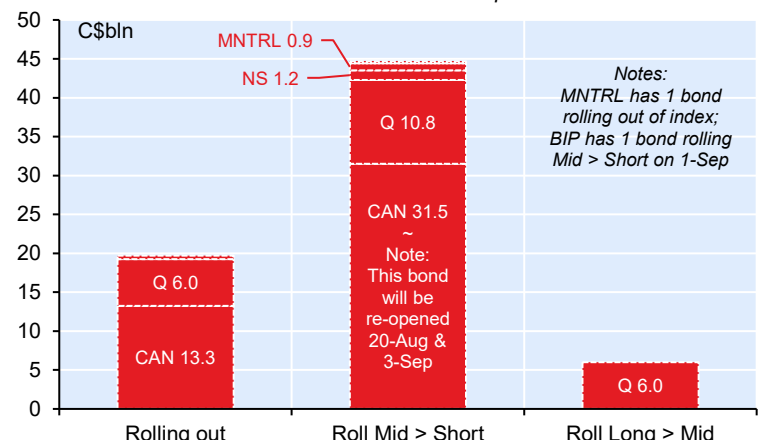


Source: NBC, FTSE Russell | Note: Index excludes bonds maturing in <1Y; nominals only

As one of a handful of sanctioned maturity dates, September 1st is noteworthy for the GoC market. One Canada issue is set to drop out of the index (CAN 1% 1-Sep-2026). An even chunkier bond (CAN 2.75% 1-Sep-2030) rolls 'Mid' to 'Short' and it's worth emphasizing that this security will be re-opened twice in/around September 1st, increasing in relative importance en route to benchmark status. September 1st is used by other levels of government. Of note, three Quebec bonds (2026s, 2030s, 2035s) will roll out or roll over, while two Montreal securities see their index status change.

Chart 4: GoC & Que-based rolls a focus on September 1st

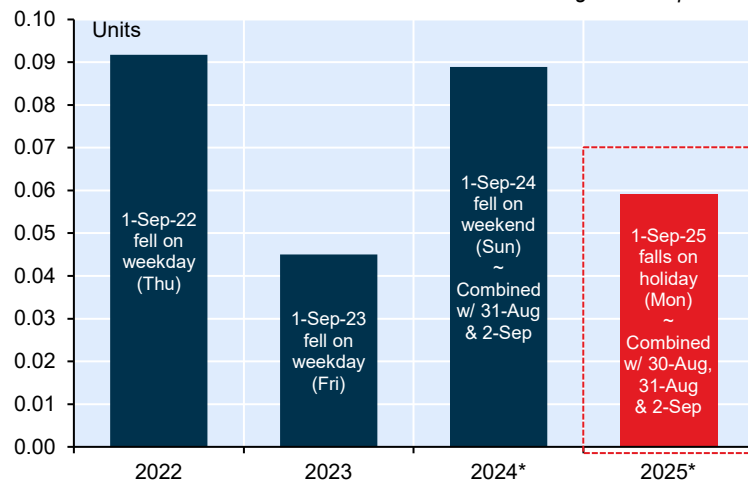
FTSE Canada Universe Bond Index bond rolls: 1-Sep-25



Source: NBC, FTSE Russell | Note: Based on 11-Aug closes; rolls to be captured 2-Sep

Chart 5: Underlying extension less significant than 2024

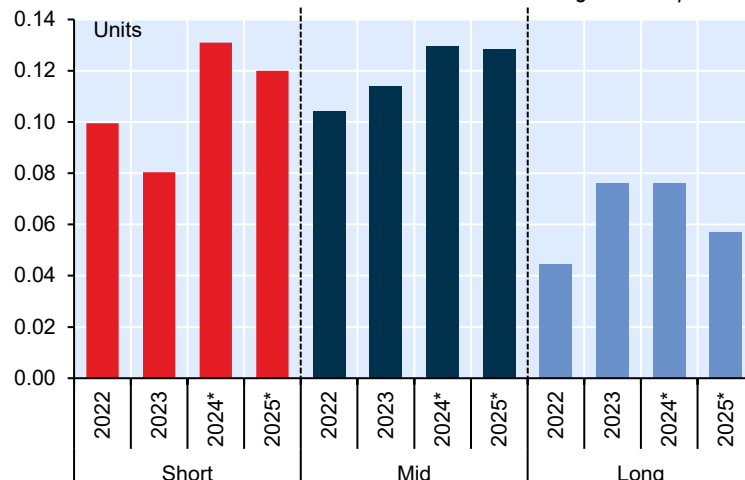
FTSE Canada Universe Bond Index: Simulated duration change on 1-Sep*



Source: NBC, FTSE Russell | Note: 1D simulations using 11-Aug to 13-Aug closes each year; note that 1-Sep-25 coupon/roll impact will be part of a 4D adjustment captured 2-Sep-25; last year, 1-Sep-24 fell on weekend; assumes no change in yield curve; simulated impacts will change as index evolves, including re-opening of CAN 1% 1-Sep-2030s

Chart 6: Noted impacts for 'Short' & 'Mid' buckets

FTSE Canada Universe Bond Index: Simulated duration change on 1-Sep*

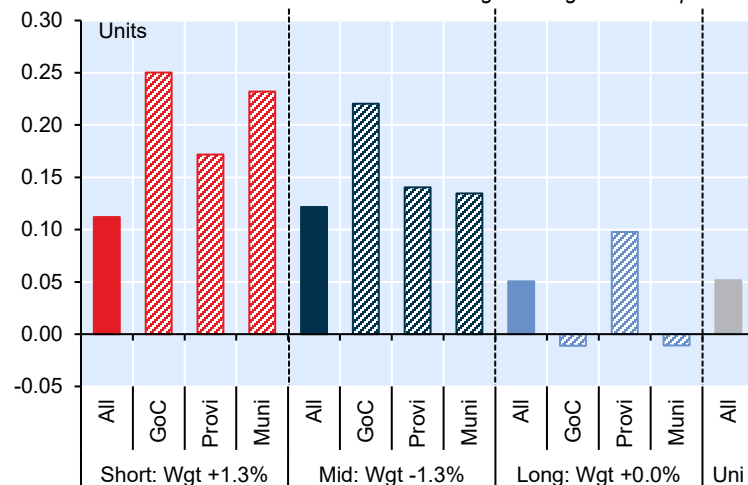


Source: NBC, FTSE Russell | Note: 1D simulations using 11-Aug to 13-Aug closes each year; note that 1-Sep-25 coupon/roll impact will be part of a 4D adjustment captured 2-Sep-25; last year, 1-Sep-24 fell on weekend; assumes no change in yield curve; simulated impacts will change as index evolves, including re-opening of CAN 1% 1-Sep-2030s

For illustrative purposes, we have isolated September 1st duration impacts based on prevailing/current index constituents and pricing. Note: This year, as last, September 1st is not a good business day. For 2025, coupon/roll impacts are to be captured after the Labour Day holiday on Tuesday, September 2nd. Although less significant than in 2024, this year's simulated coupon/roll impacts on the overall modified duration of the FTSE Canada Universe Bond Index are nonetheless meaningful at ~0.06, all else being equal. By bucket, simulated duration impacts are apt to be more notable for both 'Short' and 'Mid', the former gaining weight at the expense of the latter. The duration of the 'Long' bucket will also increase, but to a lesser extent, as the Quebec 4% 1-Sep-2035 issue rolls.

Chart 7: Sectoral perspective on this year's extension

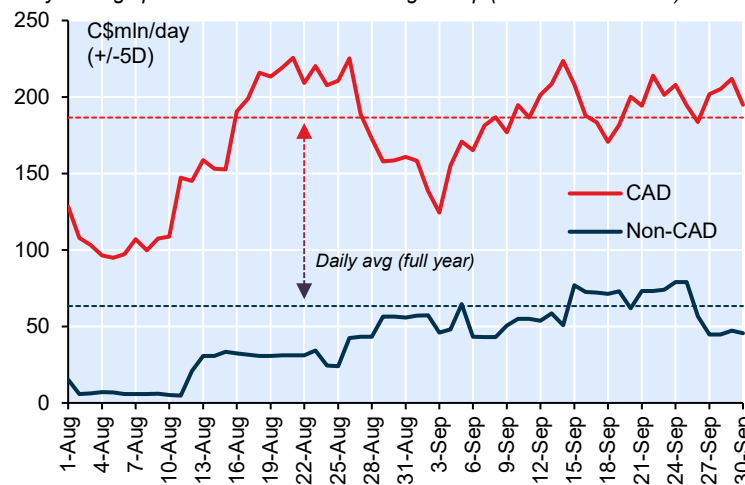
FTSE Canada Universe Bond Index: Duration change 29-Aug-25 to 2-Sep-25



Source: NBC, FTSE Russell | Note: 4D simulation using 11-Aug closes; Mon 1-Sep-25 is holiday with coupon/roll impacts to be captured 2-Sep-25; assumes no change in yield curve; simulated impacts will change as index evolves, including re-opening of CAN 1% 1-Sep-2030s

Chart 8: Index impacts could influence provi supply

Daily average provincial bond issuance: Aug to Sep (15Y trend: 2010-24)



Source: NBC, BBG | Note: Based on gross marketable bond issuance from all provinces; daily averages smoothed to reduce visual noise; dashed lines refer to 365D avg pace; non-CAD issuance trend converted to Canadian dollars using FX rates at time of issue

Taking a closer look at simulated duration impacts by bucket and sector, the chunky nature of September 1st GoC bond rolls means the 'Federal Non-Agency' sector is due to be materially impacted, weighted average duration jumping as a short 'Short' Canada rolls out and as equally short 'Mid' Canada rolls down. Again, we'd highlight that one of these key GoC issues (the CAN 1% 1-Sep-2030s) will be re-opened/auctioned on both August 20th and then again on September 3rd, when it is expected to attain 5Y benchmark status. Quebec bond rolls (along with a single Nova Scotia roll) will add duration to 'Provincial' sub-sectors. By the same token, the pending roll out and roll over of two City of Montreal bonds will influence duration for 'Municipal' indices. With cash to be deployed and duration to be added, select issuers could look to tap the new issue market, contingent as always on underlying market conditions/sentiment. Wouldn't be the first time.

In addition to the September 1st index impacts previewed here, don't lose sight of two other relatively important cashflow/index days in September: the 8th and the 15th. Unlike September 1st, both the 8th and 15th are good business days in 2025.

Historically, September 8th has been a notable day for provincial bond adjustments, Ontario in particular having utilized September 8th (and/or March 8th) as a maturity dating. Among other adjustments this year, the ONT 1.35% 8-Sep-26 issue (\$2.0 bln o/s) is due to roll out of the index. Meanwhile, the ONT 2.95% 8-Sep-2030 issue (\$3.5 bln o/s) is due to roll over from 'Mid' to 'Short'. At this stage, no index-eligible bonds are due to roll over from 'Long' to 'Mid' on September 8th.

September 15th is synonymous with federal crowns... more specifically Canada Mortgage Bonds. The CANHOU 1.9% 15-Sep-2026 issue (\$6.6 bln effective o/s) will roll out of the universe this year. No bonds are due to roll over from 'Mid' to 'Short', but the CANHOU 3.6% 15-Sep-35 issue (currently \$3 bln effective o/s) is due to roll over from 'Long' to 'Mid'. Note that this 10-year CANHOU issue is poised to be re-opened imminently, increasing effective outstandings and amplifying certain weighting/duration impacts.

Further analysis and simulations of September 8th and September 15th impacts are available on request.



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