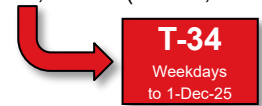


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Pre-positioning for December cash/duration

By Warren Lovely, Taylor Schleich and Ethan Currie

For Canada's domestic bond market, December cashflows, bond rolls and prospective duration adjustments tend to cast a long shadow. So while the first of December is still a month and a half away (T-34 weekdays to be precise), it's by no means premature to be thinking (and writing) about related seasonal tendencies. Cue this *Market View*.

For context, a record wave of cash will wash over Canada's domestic bond market this December. Much of it comes on the 1st and 2nd (both good business days). All else equal, jumbo coupon payments and chunky bond rolls would boost duration of select buckets/sectors.

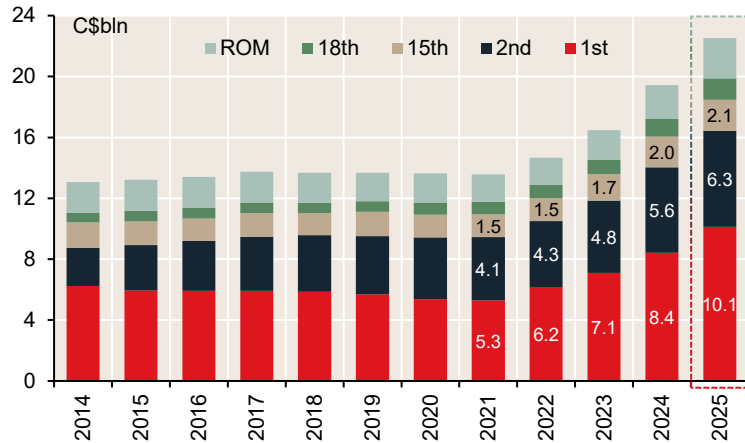
Here we identify and explore a variety of seasonal tendencies in Canada's GoC market. Historically, there's a bias towards cross-market performance (GoC vs. USTs) and flatter yield curves. Empirically

speaking (based on a 15-year, post-GFC sample), optimal entry points for many seasonal trades are close at end... if not already upon us.

As always, we urge caution when interpreting empirical results. Past isn't necessarily prelude. Moreover, spare a thought for entry levels, with current valuations (not only in GoC rates but other core asset classes) in some cases far from 'normal'. The ongoing U.S. government shutdown may be clouding the economic outlook south of the border, but important Canadian data are set to arrive. Note that BoC/FOMC monetary policy decisions and a Canadian federal budget are also arriving during traditional pre-cash seasonal performance zones. There's much to control for then. Still, for those aiming to pre-position for December's bond market fireworks we'd encourage you to read on ...

Chart 1: Record cash to be deployed this December

FTSE Canada Universe Bond Index: Projected Dec-25 cashflows vs. prior years

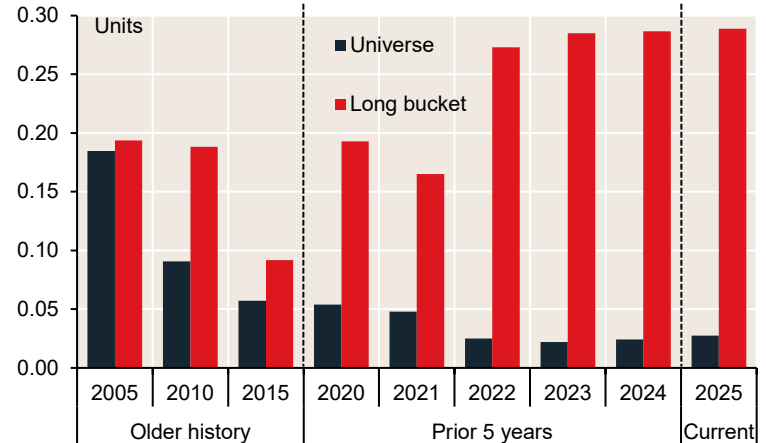


Source: NBC, FTSE Russell | Note: Generated as at 2-Nov (or most recent); 'ROM' refers to rest of December (excl. four focus days)

A record amount of index cash flows this December, topping C\$22bln for the month as a whole (+17% Y/Y & ~55% higher than three years ago). As in recent years, the duration of the 'Long' bucket will increase most materially on December 1st (with impacts focused on GoC). Further material duration impacts are expected December 2nd (where coupons/rolls make this more a provincial story).

Chart 2: Another outsized boost to 'Long' bucket coming

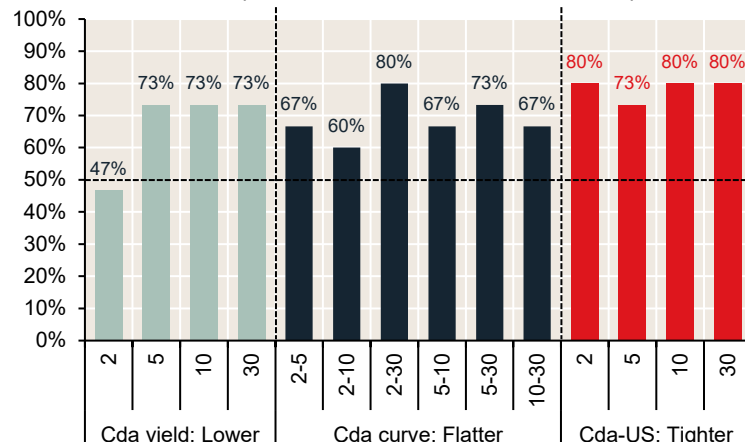
FTSE Canada Universe Bond Index: Simulated duration change 30-Nov to 1-Dec



Source: NBC, FTSE Russell | Note: Underlying adjustment based on index composition as at 17-Nov (or most recent); where 1-Dec fell on weekend, impact captured next business day

Chart 3: Relatively consistent tendencies in pre-cash period

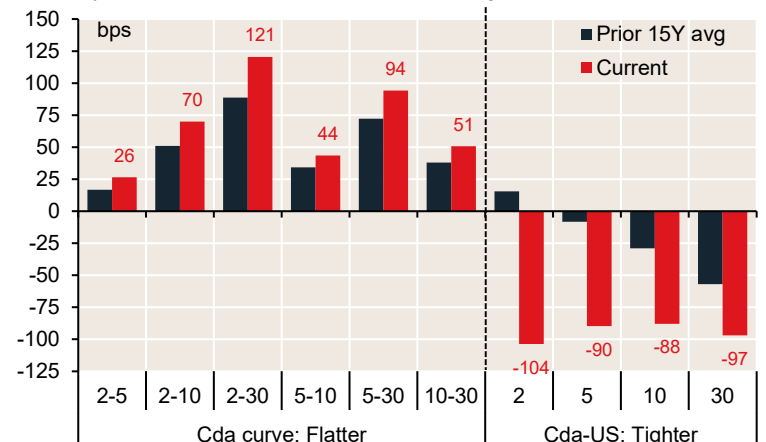
15Y success rates vs. expected direction in Canadian rates 30D up to 1-Dec



Source: NBC, BBG | Note: Success rates based on 15Y period from 2010-24

Chart 4: Current location far from 'normal' (or average)

Canada yield curves & differentials: Current vs. avg level 34D before 1-Dec

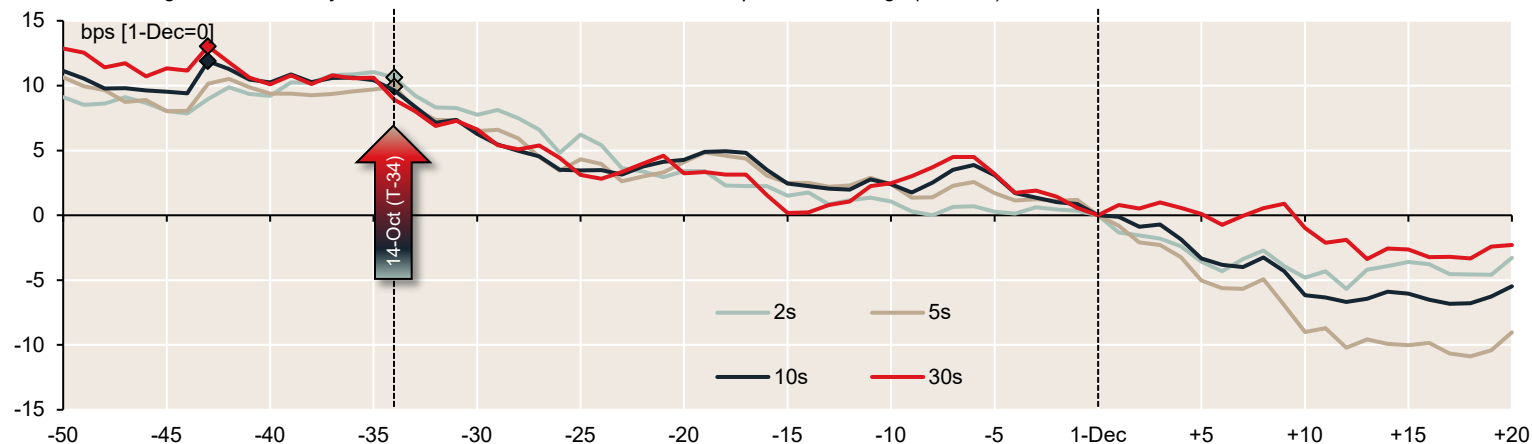


Source: NBC, BBG | Note: Prior 15Y avg (T-34) based on 2010-24; current (14-Oct) is T-34

All else equal, seasonal tendencies include flatter yield curves & outperformance of Canadas vs. USTs. Looking back 15 years, 80% success rates are in some cases observed. Reflecting on current levels, the GoC curve is steeper-than-average, whereas Canadas remain historically rich to USTs. We caution that policy rate decisions (29-Oct) and Ottawa's budget (4-Nov) are key wild cards.

**Chart 5: When to get long Canada vs. UST? Well in advance. How long to stay in trade? History says much of December**

Cumulative change in Canada-US yield differentials relative to 1-Dec, based on prior 15Y average (2010-24)

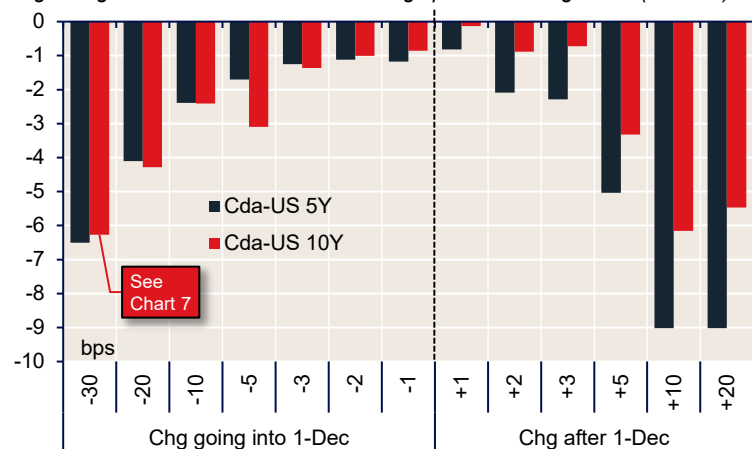


Source: NBC, BBG | Note: Cumulative change based on generic BMs; horizontal axis reflects weekdays relative to 1-Dec (set to 0); markers are optimal entry based on 15Y average change

Historically, we tend to observe material & sustained outperformance of Canada vs. USTs heading into December's large cash flows. The longer the tenor the earlier it has typically paid to enter the cross-market trade. There's evidence of post-December 1st performance too (most consistent/striking in 5s). Again, we caution that geopolitical, economic, monetary and fiscal backdrops are fluid.

Chart 6: Visualizing pre & post 1-Dec change in Cda-US

Avg change in Canada-US 5s & 10s leading up to & following 1-Dec (2010-24)

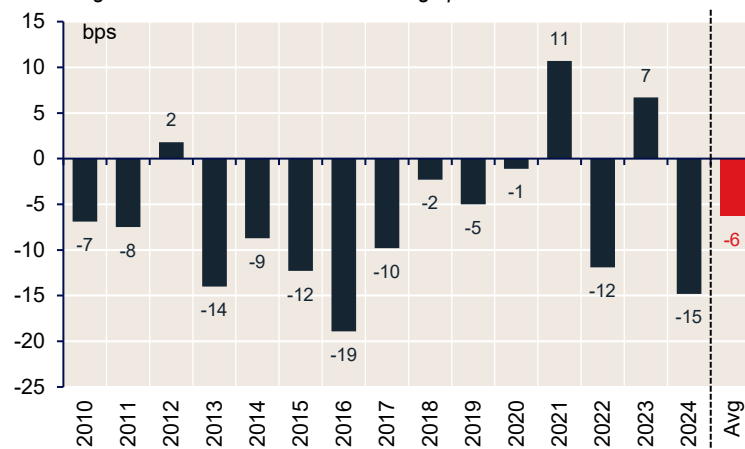


Source: NBC, BBG | Note: Avg chg for given number of weekdays relative to 1-Dec

History suggests it pays to put a long Canada, short US trade on early. It has likewise tended to be profitable to maintain a long Canada, short US bias into mid-December (if not through year-end). Looking at the net change in the 30 weekdays going into 1-Dec, Canada 10s outperformed USTs 80% of the time (12 of 15Y in our post-GFC sample), including last year (as illustrated below).

Chart 7: Cda-US 10s tighter 12 of 15 times (in 30D lead-up)

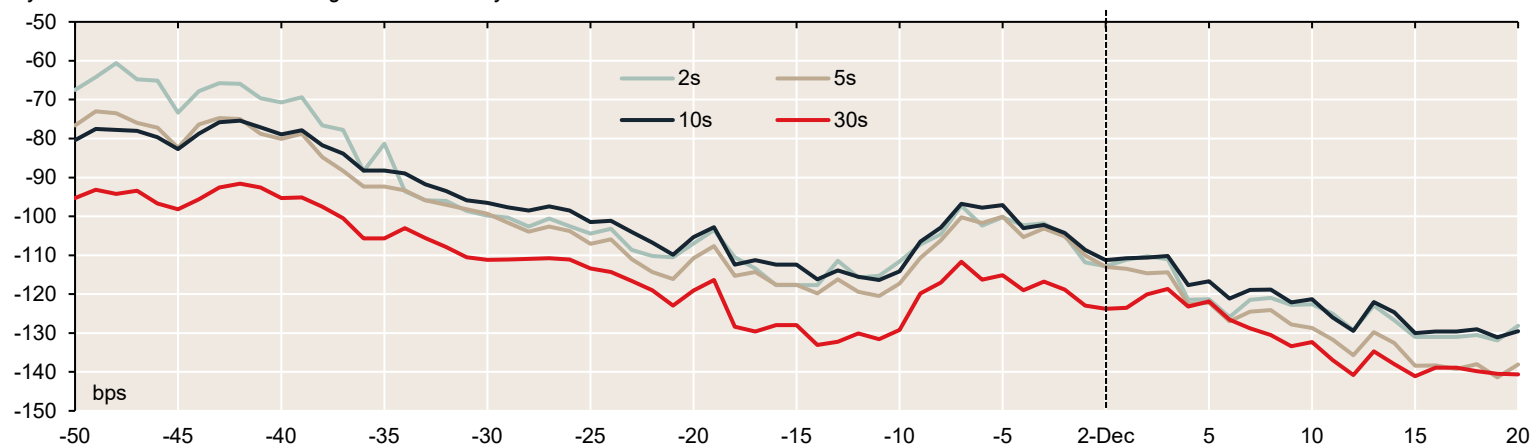
Net change in Canada-US 10s in 30D leading up to 1-Dec



Source: NBC, BBG | Note: Based on relative changes in generic 10Y benchmarks

Chart 8: This time last year, the 'rich' got 'richer' as aggressive BoC easing contributed to Canada outperformance

1-year look-back: Cumulative change in Canada-US yield differentials relative to 2-Dec-24*

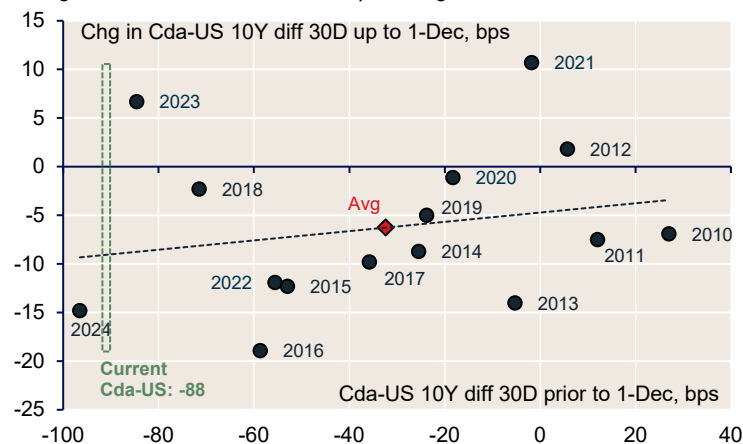


Source: NBC, BBG | Note: Cumulative change in yield differentials based on generic benchmarks; horizontal axis reflects weekdays relative to 2-Dec-24 (since 1-Dec fell on weekend)

Looking back on 2024, a widening policy rate gap via greater-than-expected (50bp) BoC cuts and a more paced Fed drove cross-market yield performance. As geopolitical uncertainty mounted following the U.S. election, a murky outlook suggested stickier yields south of the border, while Canada braced for economic impact, as GoC-UST moves extended out the curve in similar fashion.

**Chart 9: How important is Cda-US market location?**

Change in Canada-US 10s relative to prevailing level 30D before 1-Dec

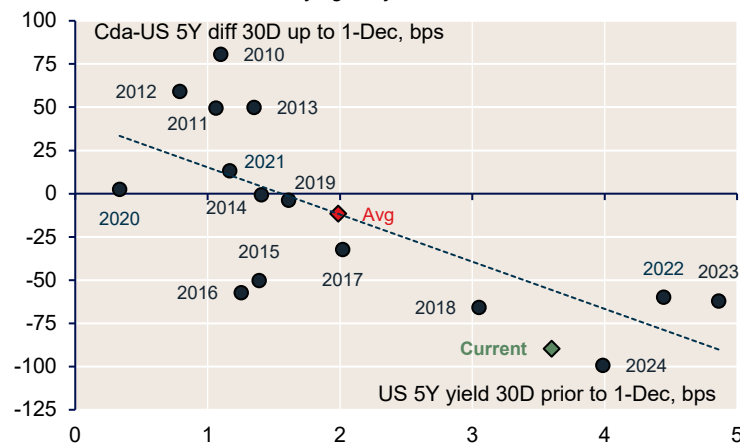


Source: NBC, BBG | Note: Current -88 bp level as of 14-Oct-25 (T-34)

There's evidence of seasonal cash supporting Canada vs. US even when starting from notionally 'rich' territory. That may be of some comfort given that Canadas currently trade at some of the richest levels for this time of year based on our 15Y post-GFC sample. We're also far from a steady state in Treasuries, as FOMC meetings are live and geopolitical/trade risks remain elevated.

Chart 10: Underlying level & directionality a consideration

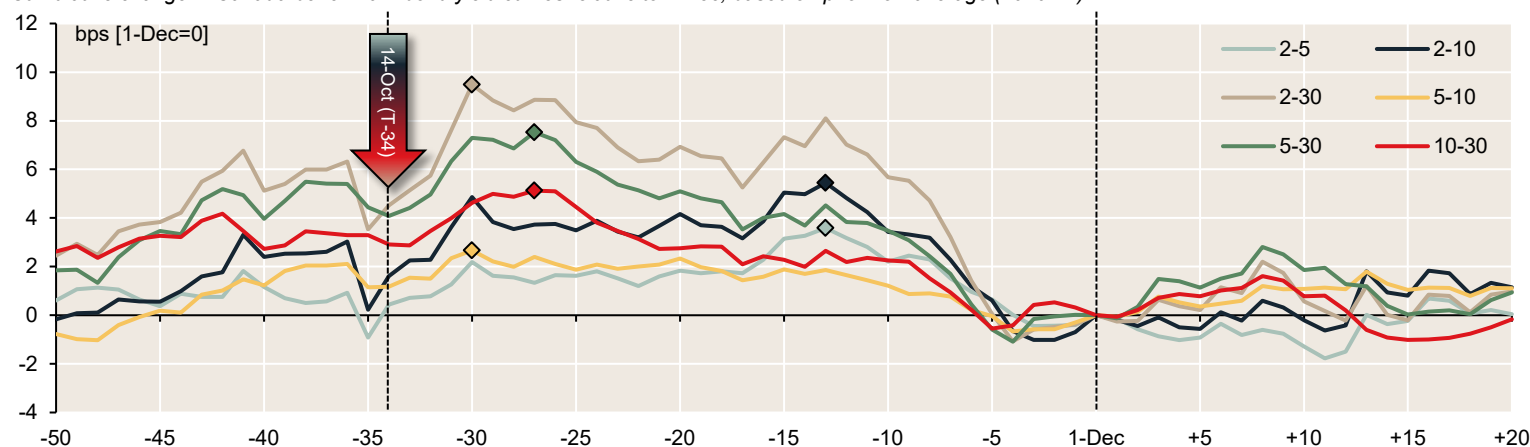
Canada-US 5s relative to underlying US yield level 30D before 1-Dec



Source: NBC, BBG | Note: Current levels 3.60% & -89 bps as of 14-Oct-25 (T-34)

Chart 11: The flattener has, on average, been very much in vogue in the lead-up to 1-Dec

Cumulative change in Canada benchmark bond yield curves relative to 1-Dec, based on prior 15Y average (2010-24)

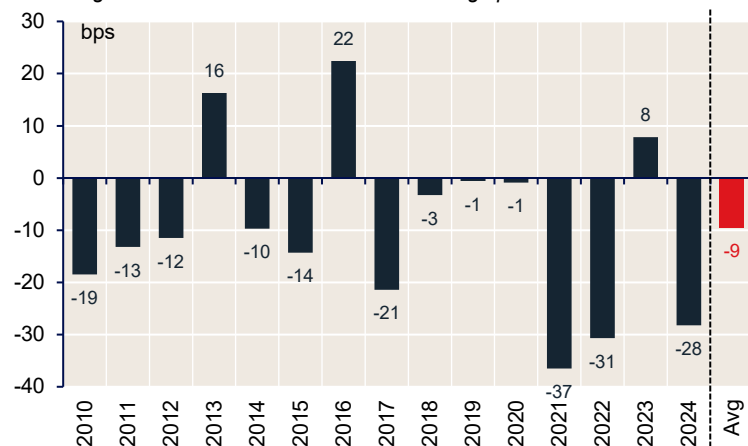


Source: NBC, BBG | Note: Cumulative change based on generic BMs; horizontal axis reflects weekdays relative to 1-Dec (set to 0); markers are optimal entry based on 15Y average change

Historically, there's a distinct tendency towards flatter curves as investors position for duration extensions in/around December 1st. All major curves exhibit a flattening bias in the lead up to December, with the notional 'optimal' entry point for flatteners in some cases close at hand. Note that a potential BoC rate cut on October 29th (which is not fully priced) could steepen the curve, all else equal.

Chart 12: 80% success for 2s-30s flattener (going into 1-Dec)

Net change in Canada 2s-30s curve in 30D leading up to 1-Dec

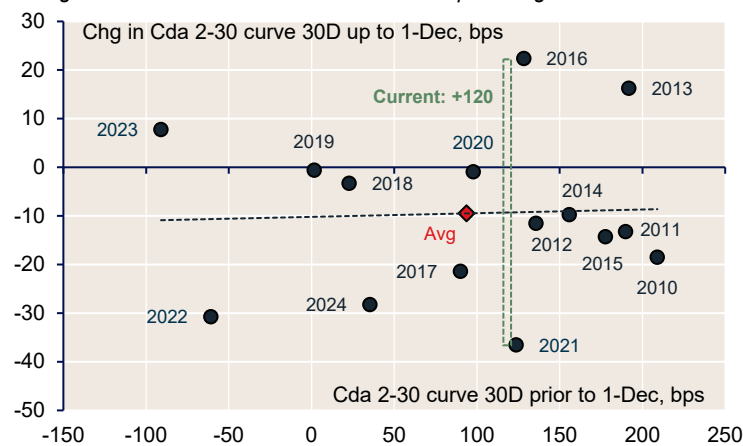


Source: NBC, BBG | Note: Based on relative changes in generic 2Y/30Y benchmarks

Canada 2s30s has flattened 80% of the time in the 30-weekday period going into 1-Dec (12 of 15Y), including last year. At this juncture, a 10s30s flattener would tend to be successful two-thirds of the time. Note that fiscal risks are driving curves steeper globally; Canada is not fully immune, with Ottawa's deficits and funding strategy more closely scrutinized. As for location, at +120 bps, Canada 2s30s curve is ~90bps steeper than this time last year, with 10s30s likewise steeper-than-average. Notwithstanding BoC risks, the entry point for a flattener may appear attractive to some.

Chart 13: Curve currently steeper than average

Change in Canada 2s-30s curve relative to level prevailing 30D before 1-Dec



Source: NBC, BBG | Note: Current level +120 bps as of 14-Oct-25 (T-34)

**Table: Average moves & detailed performance record in Canadian rates**

Average move & success rates in Canada interest rates (yields, curves, butterflies, cross-market) leading up to & following 1-Dec (15Y sample, based on 2010-24)

		Canada Outright				Canada Curves						Canada Flies			
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-Dec	-50	0.2	-0.4	0.4	-2.2	-0.6	0.2	-2.5	0.8	-1.8	-2.6	-1.4	1.2	2.8	3.4
	-40	-3.4	-4.5	-5.8	-8.5	-1.2	-2.4	-5.1	-1.2	-4.0	-2.7	0.1	2.8	0.3	1.5
	-30	-5.4	-7.5	-10.2	-14.8	-2.2	-4.9	-9.5	-2.7	-7.3	-4.6	0.5	5.1	-0.2	2.0
	-20	-3.1	-4.9	-7.2	-10.0	-1.8	-4.2	-6.9	-2.3	-5.1	-2.8	0.5	3.3	-1.4	0.4
	-10	-3.3	-5.5	-6.7	-8.9	-2.2	-3.4	-5.7	-1.2	-3.5	-2.3	-1.0	1.3	-1.2	1.0
	-5	-5.9	-6.6	-6.5	-6.0	-0.7	-0.6	-0.1	0.0	0.6	0.6	-0.7	-1.2	-1.2	-0.5
	-3	-3.1	-2.6	-2.0	-2.5	0.4	1.0	0.6	0.6	0.2	-0.4	-0.1	0.3	1.4	1.0
	-2	-2.3	-1.8	-1.3	-1.8	0.4	1.0	0.5	0.6	0.0	-0.5	-0.1	0.4	1.5	1.1
	-1	-0.7	-0.3	0.0	-0.3	0.4	0.7	0.4	0.3	0.0	-0.3	0.1	0.4	1.0	0.6
After 1-Dec	+1	-0.3	-0.5	-0.5	-0.6	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	0.0
	+2	-0.5	-1.0	-0.9	-0.7	-0.6	-0.4	-0.2	0.1	0.3	0.2	-0.7	-0.9	-0.7	-0.1
	+3	-1.0	-1.8	-1.1	-0.3	-0.9	-0.1	0.6	0.8	1.5	0.7	-1.6	-2.4	-0.8	0.1
	+5	-0.7	-1.6	-1.2	-0.4	-0.9	-0.6	0.2	0.4	1.1	0.8	-1.3	-2.0	-1.3	-0.4
	+10	-1.9	-3.2	-2.1	-1.3	-1.3	-0.2	0.6	1.1	1.9	0.8	-2.4	-3.1	-1.0	0.3
	+20	-0.1	-0.1	1.0	0.9	0.0	1.1	1.0	1.1	0.9	-0.2	-1.1	-0.9	1.3	1.3
Success rate (%)	-50	40%	47%	47%	53%	53%	53%	67%	67%	60%	60%	33%	33%	40%	40%
	-40	60%	60%	60%	60%	67%	53%	67%	60%	60%	60%	53%	40%	53%	47%
	-30	47%	73%	73%	73%	67%	60%	80%	67%	73%	67%	47%	40%	60%	47%
	-20	67%	60%	67%	80%	67%	73%	87%	73%	80%	60%	47%	40%	53%	60%
	-10	53%	53%	60%	87%	60%	67%	73%	67%	73%	60%	47%	53%	53%	40%
	-5	67%	60%	60%	67%	60%	53%	33%	33%	40%	40%	53%	60%	53%	47%
	+5	53%	60%	47%	40%	53%	60%	40%	33%	33%	33%	60%	67%	60%	53%
	+10	53%	60%	60%	53%	53%	33%	33%	33%	33%	47%	53%	60%	47%	47%
	+20	33%	47%	53%	47%	47%	40%	47%	47%	53%	60%	60%	53%	53%	47%
Test >		Lower yield				Flatter curve						Belly outperformance vs. wings			

		Canada-US Differential				Canada-US Boxes						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-Dec	-50	-9.1	-10.6	-11.1	-12.9	-1.5	-2.0	-3.8	-0.5	-2.2	-1.7	-1.0	0.7	-0.3	1.2
	-40	-9.2	-9.4	-10.2	-10.1	-0.2	-1.0	-0.9	-0.8	-0.7	0.1	0.7	0.5	-1.2	-1.0
	-30	-7.8	-6.5	-6.3	-6.6	1.3	1.5	1.1	0.2	-0.1	-0.3	1.0	1.4	1.8	0.6
	-20	-3.4	-4.1	-4.3	-3.2	-0.7	-0.9	0.2	-0.2	0.9	1.0	-0.5	-1.6	-1.9	-1.2
	-10	-1.1	-2.4	-2.4	-2.5	-1.3	-1.4	-1.4	0.0	-0.1	-0.1	-1.3	-1.3	-1.3	0.0
	-5	-0.3	-1.7	-3.1	-3.2	-1.4	-2.8	-2.9	-1.4	-1.5	-0.1	0.0	0.1	-2.7	-1.3
	-3	-0.6	-1.2	-1.4	-1.9	-0.6	-0.7	-1.3	-0.1	-0.6	-0.5	-0.5	0.0	-0.2	0.4
	-2	-0.4	-1.1	-1.0	-1.4	-0.7	-0.6	-1.0	0.1	-0.3	-0.4	-0.8	-0.3	-0.1	0.6
	-1	-0.3	-1.2	-0.9	-0.6	-0.8	-0.5	-0.2	0.3	0.6	0.3	-1.2	-1.4	-0.8	0.0
After 1-Dec	+1	-1.3	-0.8	-0.1	0.8	0.5	1.2	2.1	0.7	1.6	0.9	-0.2	-1.1	0.3	-0.2
	+2	-1.6	-2.1	-0.9	0.5	-0.5	0.7	2.1	1.2	2.6	1.4	-1.7	-3.2	-0.8	-0.2
	+3	-1.8	-2.3	-0.7	1.0	-0.5	1.1	2.8	1.6	3.3	1.7	-2.1	-3.8	-0.6	-0.1
	+5	-3.6	-5.0	-3.3	0.1	-1.5	0.3	3.7	1.7	5.1	3.4	-3.2	-6.6	-3.2	-1.7
	+10	-4.8	-9.0	-6.2	-1.0	-4.2	-1.4	3.8	2.9	8.0	5.2	-7.1	-12.2	-6.5	-2.3
	+20	-3.3	-9.0	-5.5	-2.3	-5.7	-2.2	1.0	3.6	6.7	3.2	-9.3	-12.5	-5.4	0.4
Success rate (%)	-50	73%	80%	80%	73%	53%	47%	60%	40%	53%	53%	60%	47%	47%	47%
	-40	67%	87%	87%	80%	40%	53%	40%	47%	40%	33%	53%	47%	47%	67%
	-30	80%	73%	80%	80%	40%	53%	40%	47%	40%	40%	40%	53%	47%	53%
	-20	67%	73%	73%	73%	53%	60%	47%	47%	53%	40%	47%	40%	53%	60%
	-10	60%	73%	87%	67%	60%	67%	53%	60%	53%	60%	53%	60%	60%	40%
	-5	60%	67%	80%	73%	60%	80%	60%	73%	60%	53%	40%	40%	80%	60%
	+5	67%	73%	67%	40%	67%	47%	27%	33%	13%	13%	73%	80%	67%	67%
	+10	80%	80%	67%	47%	87%	53%	20%	27%	7%	13%	93%	100%	73%	60%
	+20	53%	73%	60%	47%	80%	60%	47%	27%	20%	40%	73%	73%	67%	47%
Test >		Relative outperformance of Canada				Relatively greater flattening in Canada						Relative outperformance of Canada belly			

Source: NBC, BBG | Note: Success rates reflect the percentage of time the 'expected' direction of trade held; examples of the a priori direction of trade include: Canada outright=lower yield; Canada curves=flatter; Canada-US yield differentials=tighter, etc; Canada-US "fly trap" represents a Canada butterfly vs. US butterfly trade involving six benchmark bonds



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