Market View
Economics and Strategy

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Over and out! December bond roll details

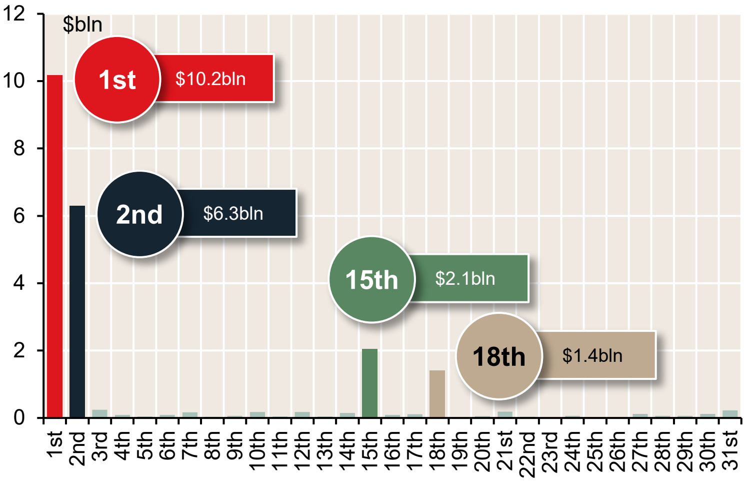
By Warren Lovely

We put the December 1st/2nd bond seasonals marker down last week via a detailed *Market View* (available **here**). While briefly touching on anticipated cash flows and duration adjustments, this earlier note primarily outlined an empirically driven trading strategy for Canadian rates. For those seeking greater clarity on index-related cash, bond rolls and duration impacts, this complementary report is made for you.

To be sure, the looming deployment of outsized cash is a major technical consideration for Canada's domestic bond market. Meanwhile, the reclassification of a handful of index securities will reverberate in key sectors/tenors. We're talking about bond roll outs and roll overs.

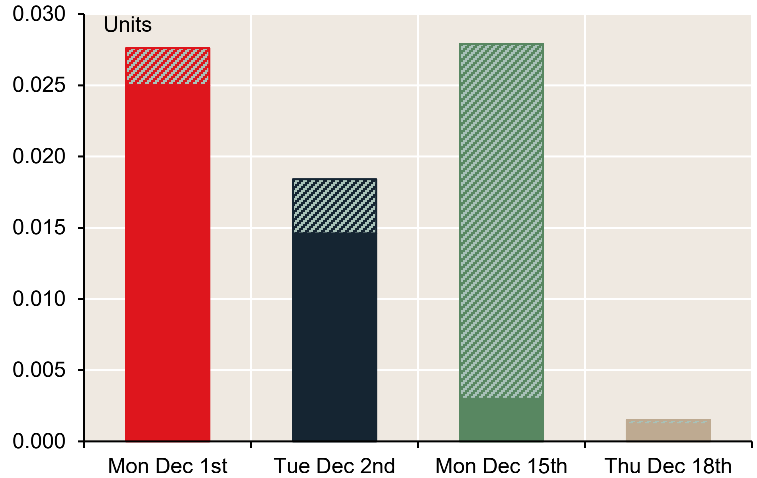
Note: This *Market View* leverages the latest available index data (closing prices, constituents). We are nonetheless aware that the outstanding amount of select securities can/will change as we move closer to December. As but one example, the CAN 3.25% 1-Dec-35s will be re-opened for $5.25 billion this week. We will fine tune our index simulations as needed. Until then, it's [bond] over and out!

Chart 1: Canada's lumpy December cash flows a clear focus
FTSE Canada Universe Bond Index: Projected Dec-25 interest income cash flows



Source: NBC, FTSE Russell | Note: Generated as of 17-Oct-25; total interest income of C$22.4bln for Dec-25, with C$19.9bln or 89% due on four key days (1st, 2nd, 15th, 18th)

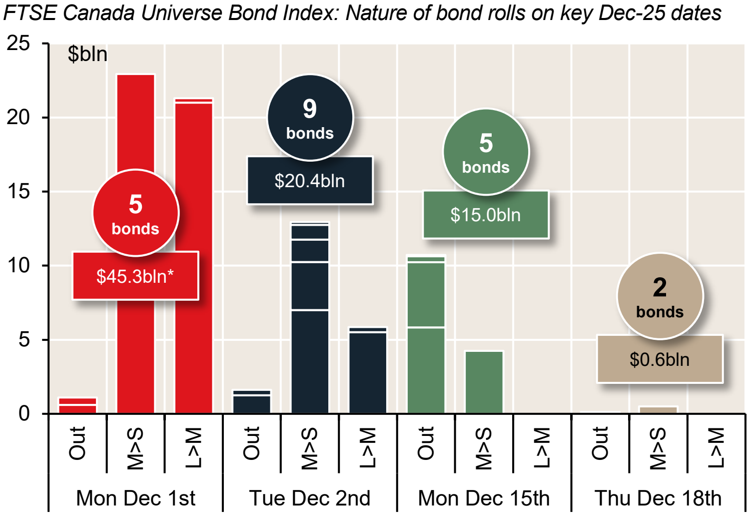
Chart 2: Duration impact on 'Universe' not the whole story
FTSE Canada Universe Bond Index: Simulated duration chg on 'Universe'



Source: NBC, FTSE Russell | Note: Simulated impact on Universe based on index composition as of 17-Oct; solid portion refers to coupon impact; cross-hatch portion refers to roll out impact

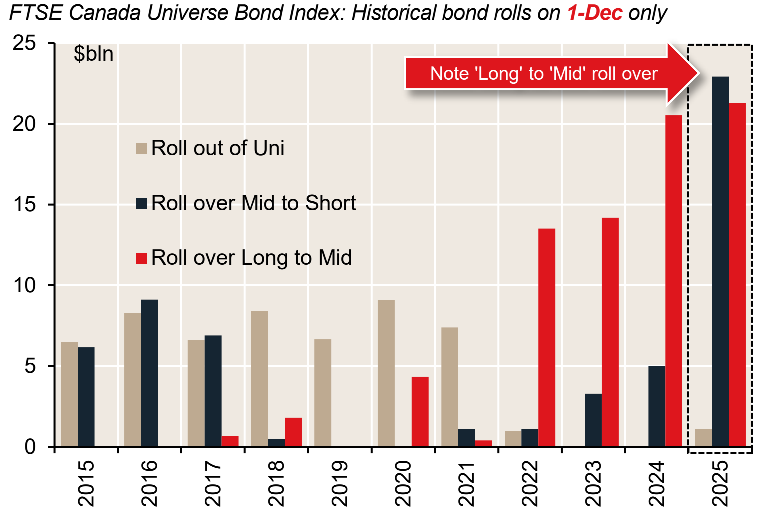
As earlier <u>**noted**</u>, index-related cashflows will top $22bln this December, up some 17% year-on-year and heavily skewed to four specific dates (Dec 1st, 2nd, 15th & 18th). These super-sized interest payments will add duration to the FTSE Canada Universe Bond Index as December progresses (ceteris paribus). But what about bond roll impacts? For December 1st/2nd, bond <u>roll outs</u> (i.e., out of index) aren't all that significant a feature. But bond <u>roll overs</u> (i.e., from one bucket to another) are a major storyline, driving serious duration changes for select sectors/tenors as we detail below.

Chart 3: Roll me over! A number of bonds to be reclassified
FTSE Canada Universe Bond Index: Nature of bond rolls on key Dec-25 dates



Source: NBC, FTSE Russell | Note: Based on index composition as at 17-Oct-25; in select cases, outstanding amount will increase prior to key roll date (e.g., CAN 3.25% 1-Dec-35)

Chart 4: 'Long' to 'Mid' GoC roll overs increasingly a thing
*FTSE Canada Universe Bond Index: Historical bond rolls on **1-Dec** only*

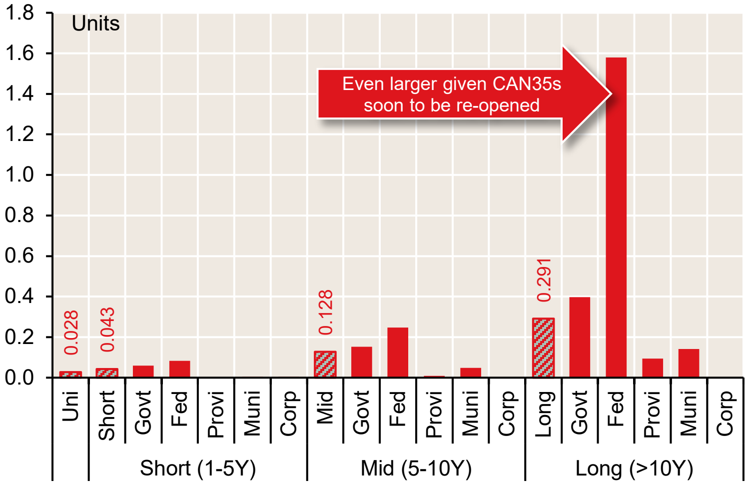


Source: NBC, FTSE Russell | Note: Based on index composition as at 17-Oct each year (or next closest day); for 1-Dec-25, 5 bonds will see classification change (as per Cht 3)

Based on the FTSE Canada Universe Bond Index as of 17-Oct-25, 21 securities with current holdings totaling more than $81bln are set to be reclassified on one of the four key December dates (1st, 2nd, 15th or 18th). The GoC is an obvious focus on December 1st. This year, the CAN 3.25% 1-Dec-35 bond will roll over from 'Long' to 'Mid', adding material duration to the 'Long Federal' sub-sector all else equal. Indeed, 10-year GoC bond roll overs have become a major technical consideration in recent years and should remain topical going forward (given Ottawa's expected borrowing needs).

Chart 5: Dec 1st duration impact focused on 'Long Federal'

FTSE Canada Universe Bond Index: Simulated duration change on 1-Dec-25

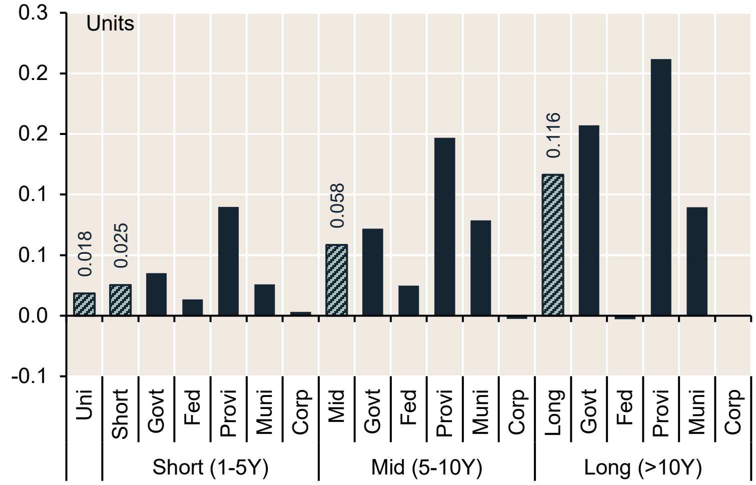


Source: NBC, FTSE Russell | Note: Based on index composition as at 17-Oct-25; in some cases outstanding amounts will change prior to 1-Dec-25; assumes no change in yield curve

December 1st effects: $10.2bln in cash flows | 5 bonds rolling out or over ($45.3bln total). NBC estimates a +0.028 increase in modified duration of the 'Universe', with two bonds rolling out ($1.1bln combined). As in prior years, the prospective adjustment to the 'Long' bucket will be particularly notable. The duration of the 'Long Federal' sector is currently estimated to extend +1.579 units as the CAN 3.25% 1-Dec-35s ($21bln o/s) roll 'Long' to 'Mid'. The ultimate duration impact should be even larger, since that specific CAN issue will be re-opened prior to December 1st. All else equal, index impacts should support performance of longer dated Canadas.

Chart 6: Provis and PSEs a major focal point on Dec 2nd

FTSE Canada Universe Bond Index: Simulated duration change on 2-Dec-25

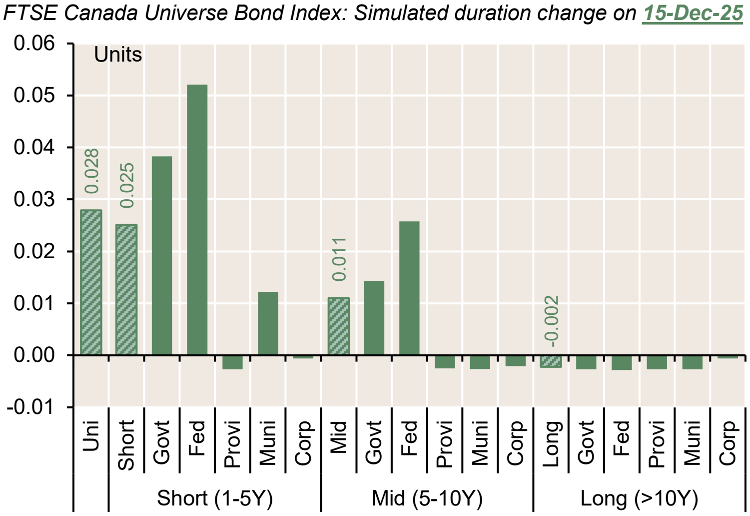


Source: NBC, FTSE Russell | Note: Based on index composition as at 17-Oct-25; in some cases outstanding amounts will change prior to 2-Dec-25; assumes no change in yield curve

December 2nd effects: $6.3bln in cash flows | 9 bonds rolling out or over ($20.4bln total). NBC estimates a +0.018 increase in modified duration of the 'Universe', with two bonds rolling out ($1.6bln combined). Five bonds are set to roll from 'Mid' to 'Short' (including an Ontario issue, three PSEs and a Toronto bond), boosting duration of this bucket. A relatively larger duration impact is expected in the 'Long' bucket, partly a function of the ONT 3.95% 1-Dec-35s ($5.5bln o/s) rolling over. We would expect provincial governments to issue into underlying/related investor demand, subject to market conditions.

Chart 7: As always, CMBs top of mind on Dec 15th

FTSE Canada Universe Bond Index: Simulated duration change on 15-Dec-25

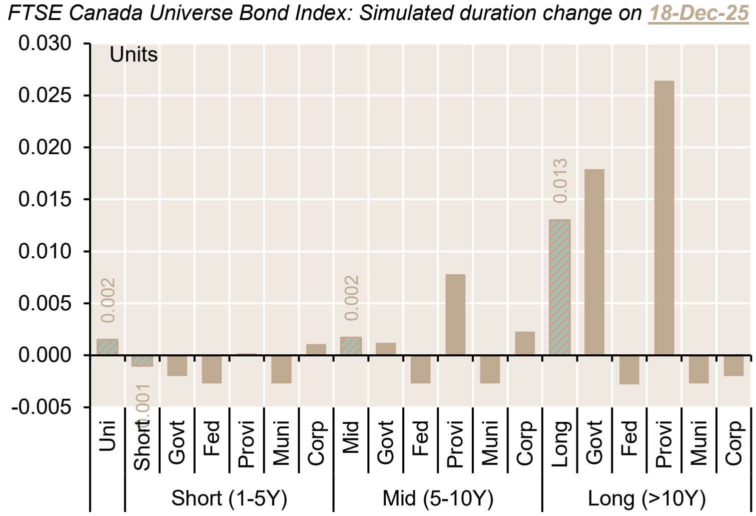


Source: NBC, FTSE Russell | Note: Based on index composition as at 17-Oct-25; in some cases outstanding amounts will change prior to 15-Dec-25; assumes no change in yield curve

December 15th effects: $2.1bln in cash flows | 5 bonds rolling out or over ($15.0bln total). NBC estimates a +0.028 increase in modified duration of the 'Universe', with four bonds rolling out ($10.7bln combined). This duration increase is primarily a CMB story. Of note, the CANHOU 1.1% 15-Dec-26s and the CANHOU 1.55% 15-Dec-26s roll out of the 'Universe'. Elsewhere, the CANHOU 2.85% 15-Dec-30s ($4.25bln effective o/s) will roll 'Mid' to 'Short' on the 15th. As a reminder, primary CMB issuance is scheduled for both mid-November and mid-December, with the federal budget potentially updating the government's CMB purchase plans. Stay tuned.

Chart 8: Provis back in focus come Dec 18th

FTSE Canada Universe Bond Index: Simulated duration change on 18-Dec-25



Source: NBC, FTSE Russell | Note: Based on index composition as at 17-Oct-25; in some cases outstanding amounts will change prior to 18-Dec-25; assumes no change in yield curve

December 18th effects: $1.4bln in cash flows | 2 bonds rolling out or over ($0.6bln total). NBC estimates a +0.002 increase in modified duration of the 'Universe'. One bond is due to roll out (SE 7.3% 18-Dec-26s, with $0.125bln o/s). Elsewhere, another single security will roll over from 'Mid' to 'Short' (GRTCN 2.378% 18-Dec-30, with $0.5bln o/s). Beyond these relatively modest roll effects, December 18th will be a feature some non-trivial cash flows, mainly linked to the provincial sector. We currently estimate a 0.026 increase in 'Long Provincial' duration on what will likely be one of the final major trading days of the calendar year.

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