

## The cash is the cash but...

By Warren Lovely

We're but a day removed from the start of Canada's semi-annual deluge of cash known as December 1<sup>st</sup>/2<sup>nd</sup>. We analyzed the impact of this severely concentrated cash and related Index adjustments a few weeks back ([link](#)). As always, this empirically driven analysis was replete with caveats. And good thing too. For while Index cash flows, security rolls and duration adjustments are easy enough to project/simulate, recent sessions offer a clear reminder that investor confidence and overall risk sentiment is harder to pin down... particularly with a new and highly infectious variant spreading. We'll offer a retrospective once the dust settles on this year's cash flows, but a very quick word on preliminary leanings. As is customary, Canadian rates are seeing a degree of outperformance on a cross-market basis as cash sets to flow, our curve mimicking a seasonal flattening bias. History students know that results have been relatively mixed for provincial credit this time of year. Despite clearly favourable fiscal news (and downward adjustments to borrowing needs), provincial spreads are flying in turbulent air. The cash dump clearly helps, likely allowing deals to get done at the margin. And Index adjustments will leave some seeking duration. But we'll need to see Omicron anxiety ease and global risk sentiment stabilize if provincial spreads are to really enjoy the traditional end-of-year tightening.

### Table: Security spotlight

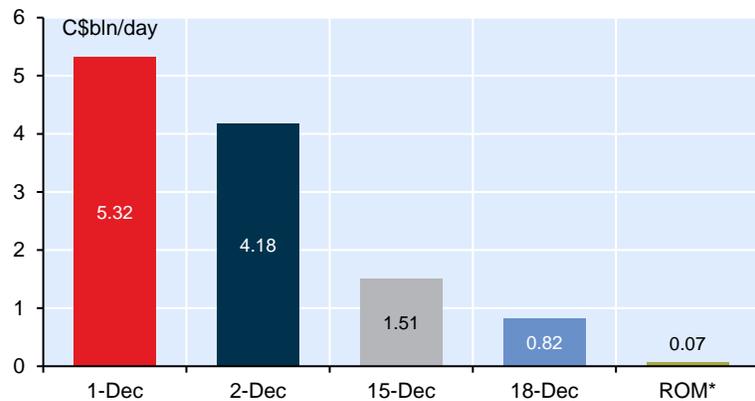
Single largest securities rolling out of FTSE Canada Universe Bond Index or rolling from one bucket to another on December 1<sup>st</sup>, 2<sup>nd</sup> & 15<sup>th</sup>

	December 1st				December 2nd				December 15th			
	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn	Issuer Ticker	Cpn %	Maturity Date	O/S C\$mIn
Out of Index	Q	3.50	01-Dec-22	6,900	No issues rolling out				CANHO	2.40	15-Dec-22	16,470
MID > SHORT	CNQC	3.42	01-Dec-26	600	BNS	2.62	02-Dec-26	1,250	CANHO	1.10	15-Dec-26	5,250
LONG > MID	CAN	1.50	01-Dec-31	8,075	ONT	2.25	02-Dec-31	3,000	CANHO	1.6-2.15*	15-Dec-31	8,000

Source: NBF, FTSE Russell | Note: This simplified table identifies only the largest individual roll out/roll overs on three key days; a complete list is available on request; the CANHO roll over from LONG to MID on 15-Dec involves two coupons each with C\$4bln outstanding

### Chart 1: Canada's heavily concentrated cash

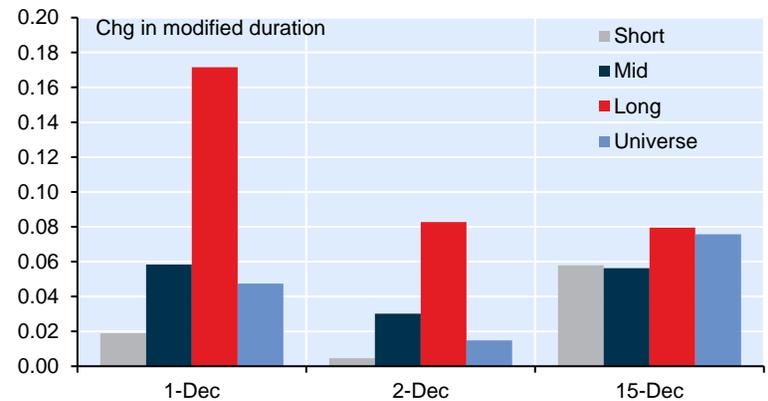
Projected FTSE Canada Universe Bond Index cash flows: December 2021



Source: NBF, FTSE Russell | Note: Based on cash flow reports generated on 26-Nov of each year; ROM refers to daily average for rest of December (excl. 1<sup>st</sup>, 2<sup>nd</sup>, 15<sup>th</sup> & 18<sup>th</sup>)

### Chart 2: Successive waves of duration extension coming

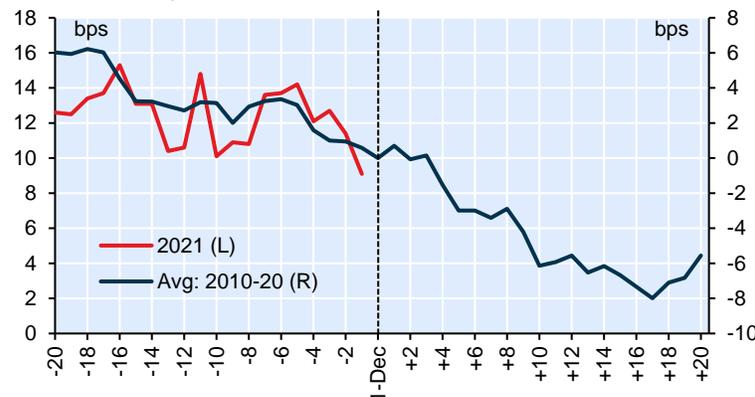
Projected change in duration of FTSE Canada Universe Bond Index: Key dates



Source: NBF, FTSE Russell | Note: NBF simulations based on index composition & closing prices as at 26-Nov; assumes no change in yield curve

### Chart 3: Canadian rates seeing some outperformance

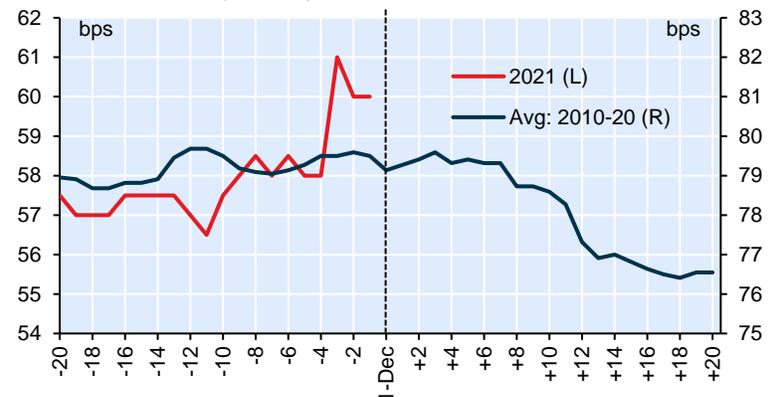
Canada-US 10Y yield differential relative to 1-Dec



Source: NBF, Bloomberg

### Chart 4: As always, provi credit vulnerable to risk sentiment

Ontario 10Y secondary bond spread relative to 1-Dec



Source: NBF, Bloomberg | Note: Based on secondary levels for generic benchmarks



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