

Estimating Canada's March 1st bond index effect

By Warren Lovely

It can be hard to lift one's eyes from often-jarring geopolitical headlines and/or various data surprises. But for Canada's domestic bond market, there are always a handful of days where cashflows and index-related rolls are simply too significant to ignore. March 1st is one of those days, even if this key day falls on a weekend (a Saturday) in 2025.

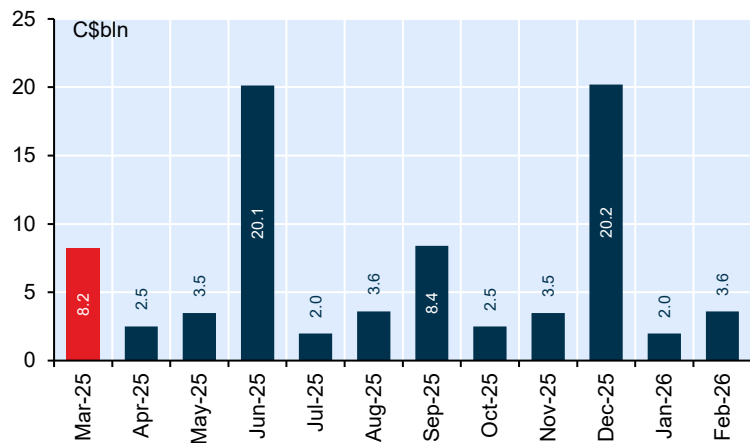
With the first business day of March (the 3rd) a little more than a week away, we quantify index-related cashflows and isolate for the handful of bonds that will either roll out of bond indices or roll over from one bucket to another. As is always the case with March 1st effects, this is mainly a GoC story. This year's March 1st effect is characterized by extra federal

coupon cash, while two big GoC bonds will roll (one out and one over). All else equal, the combined coupon/roll impacts will key a non-trivial increase in modified duration for the FTSE Canada Universe Bond Index—an even bigger expected boost than in prior years.

The precise nature of near-term bond rolls means duration impacts are apt to be most significant for the 'Short' and 'Mid' buckets, the weight of the former increasing at the expense of the latter. Since there are no 1-Mar-2035 bonds due to roll down, the simulated impact on the often-closely watched 'Long' bucket would be negligible (*ceteris paribus*). Read on... and for those seeking greater detail, please reach out.

Chart 1: Mar/Sep not Jun/Dec, but ample cash all the same

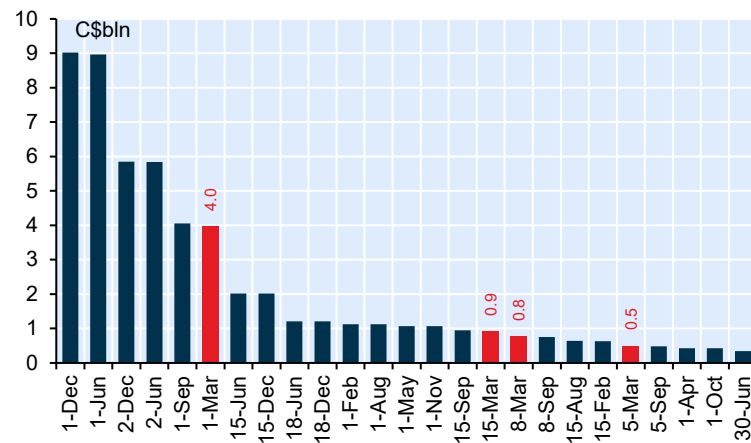
FTSE Canada Universe Bond Index: Monthly interest income (coming 1Y)



Source: NBC, FTSE Russell | Note: Based on 1Y of daily cashflows as at 19-Feb-25

Chart 2: Mar 1st a notable cashflow day (captured on 3rd this year)

FTSE Canada Universe Bond Index: Top-25 interest income days (coming 1Y)

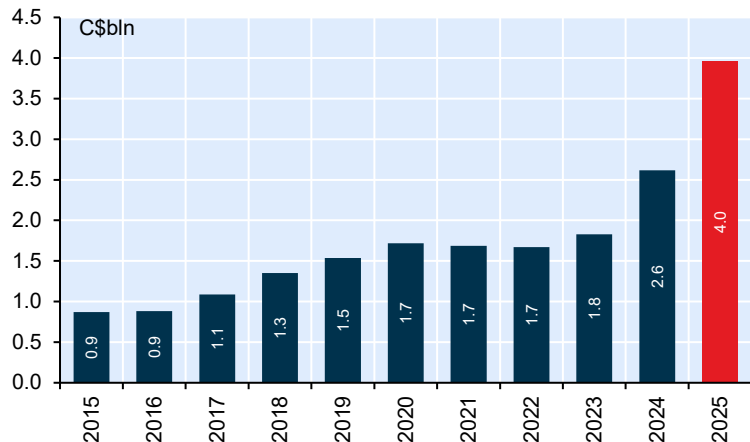


Source: NBC, FTSE Russell | Note: Based on 1Y of daily cashflows as at 19-Feb-25

Based on the FTSE Canada Universe Bond Index, \$8.2bln of interest is to be paid in March 2025. Almost half of that amount (\$4.0bln) is linked to March 1st, which is a benchmark maturity date for the largest issuer in the land – the Government of Canada. Indeed, March 1st and its 6-month twin, September 1st, rank as the 5th/6th most significant cashflow days for the domestic bond market.

Chart 3: Mar 1st coupons bloom (as Ottawa's effective debt grows)

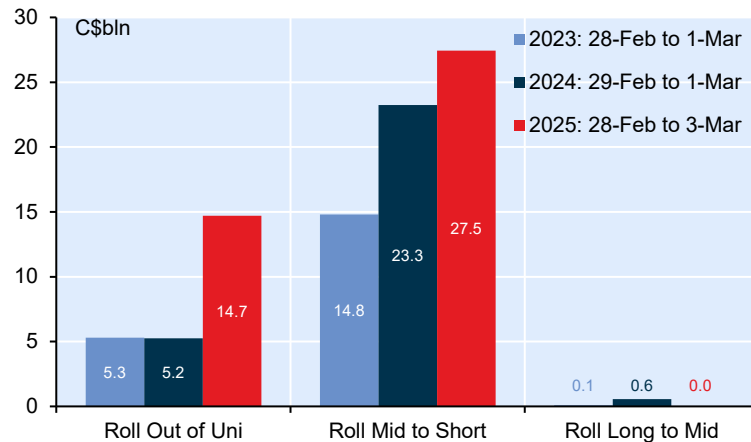
FTSE Canada Universe Bond Index: Mar 1st interest income (by year)



Source: NBC, FTSE Russell | Note: Based on 1D index cashflows captured 16-Feb to 19-Feb

Chart 4: Mar 1st roll outs and roll overs also a big deal

FTSE Canada Universe Bond Index: Bond rolls on Mar 1st (2025 vs. prior years)

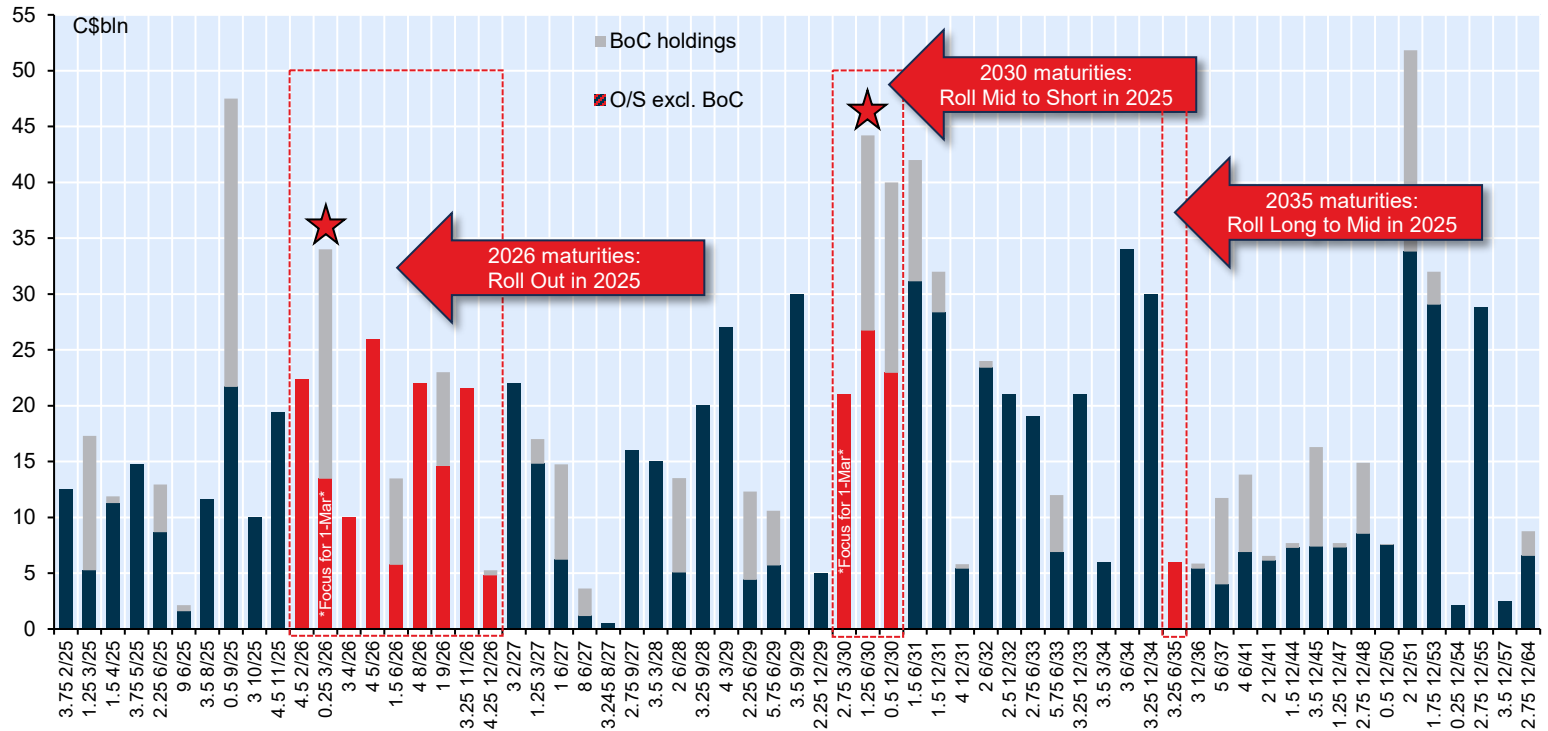


Source: NBC, FTSE Russell | Note: Based on index constituents captured 16-Feb to 19-Feb

With the effective (i.e., index-eligible) stock of GoC bonds expanding briskly, it follows that related maturity/cashflow days are growing in importance. That's certainly the case for March 1st, where index-related cashflows have more than doubled in just two years. Beyond coupon effects, the 'rolling' of large GoC issues (either out of the index or from one bucket to another) is a big(ger) deal these days. In all, four bonds with total holdings of \$14.7bln will roll out on March 3rd (with March 1st being a Saturday), while two securities worth \$27.5bln roll over from the 'Mid' to the 'Short' bucket.



Chart 5: Generally hefty GoC maturities a long-standing focus when it comes to index rolls, and this Mar 1st no different
GoC domestic bond maturity profile, controlling for (netting off) BoC holdings | Note: 2026, 2030 & 2035 maturities will see Index status change in calendar 2025

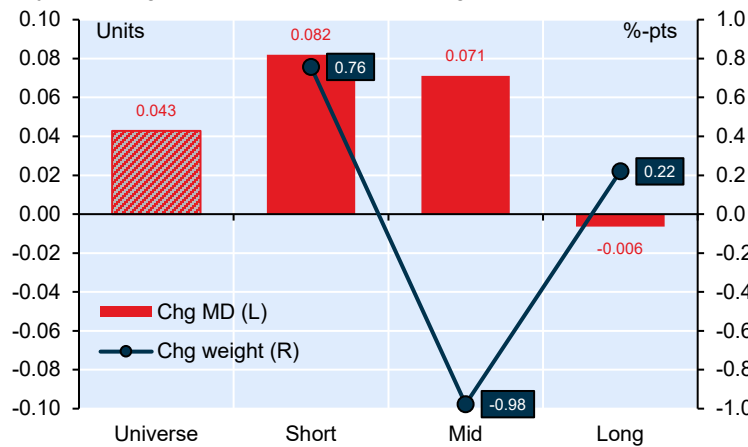


Source: NBC, BoC | Note: Par value of outstandings & BoC holdings as at 31-Jan-25; does not include subsequent GoC new issues/re-openings; existing 2026/2030/2035 maturities highlighted, as these bonds will either roll out or roll over from one bucket to another during the course of calendar 2025

Again, the most influential 'rolls' highlighted in Chart 4 (page 1) relate to GoC issues. When it comes to the sovereign, there are really nine key days to watch in 2025. February 1st is obviously behind us, with March 1st next up. Specifically, there are two GoC bonds in focus this March: (i) CAN 0.25% 1-Mar-26 with \$13.5bln outstanding (netting off \$20.5bln of BoC holdings), dropping out of the FTSE Canada Universe Bond Index; (ii) CAN 2.75% 1-Mar-30 with \$27bln outstanding (no BoC holdings), rolling from the 'Mid' to the 'Short' bucket of the FTSE Canada Universe Bond Index.

Chart 6: Duration of Universe poised to extend on Mar 3rd ...

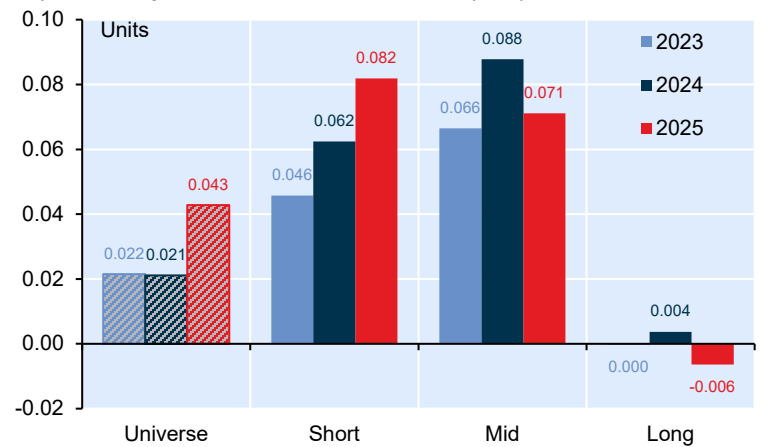
Projected change in Index* duration & sector weights: 28-Feb-25 to 3-Mar-25



Source: NBC, FTSE Russell | Note: Index refers to FTSE Canada Universe Bond Index; NBC sims based on constituents/closes as at 19-Feb-25; assumes no change in yield curve

Chart 7: ... with larger overall impact than in recent years

Projected change in Index* duration: 3-Mar-25 vs. prior years



Source: NBC, FTSE Russell | Note: Index refers to FTSE Canada Universe Bond Index; NBC sims based on constituents/closes from 16-Feb to 19-Feb; assumes no change in yield curve

As it stands, we estimate that the modified duration of the FTSE Canada Universe Bond Index will extend by 0.043 on March 3rd (which is the first good business day after March 1st). In terms of the simulated duration change for the overall Universe, this year's March 1st effect is essentially twice as large as 2024 or 2023. Given the specific nature of the GoC bond rolls detailed above (i.e., one issue dropping out, one issue rolling over), the duration and effective term of both the 'Short' and 'Mid' buckets will step up. The Index weight of 'Short' bucket will grow at the expense of 'Mid'.

Table: Simulated change in FTSE Canada Universe Bond Index (28-Feb-25 to 3-Mar-25)

Table with 3 main columns: Universe, Short, Mid, Long. Each column contains sub-columns for bond types (Govt, Federal, Federal Non-Agency, Federal Agency, Provi, Muni, Corp) and their respective simulated changes in duration (units) and weight (%-pts).

Source: NBC, FTSE Russell | Note: NBC sims based on constituents/closes as at 19-Feb-25; assumes no change in yield curve; source of outsized duration change highlighted in yellow



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