

April fools rules for Canada's domestic bond market

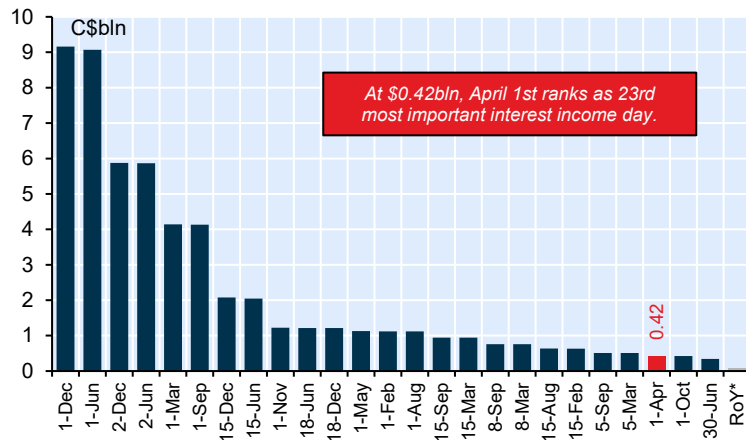
By Warren Lovely & Taylor Schleich

Forget April fools; with uncertainty off the charts this is no time for jokes. Rather, April 1st ushers in a new, sobering and generally credit negative fiscal year for Canadian governments. April 1st was also once a maturity date used by the Government of Canada for its bond program, with some residual index-related adjustments to contend with next week.

Now, April 1st is hardly the most significant day for index cashflows; it barely breaks into the Top 25 (Chart 1). But the prior use of April 1st by the sovereign as a maturity date has led to some important bond rolls, including this year. Three securities are set to roll out of the FTSE Canada Universe Bond Index this April 1st, where current holdings sum to ~\$12.5 billion (Chart 2). The single largest of these is the CAN 3% 4/1/2026 issue with \$10 billion outstanding. A high-coupon Quebec is also poised to drop out this April 1st (\$2.3 billion o/s), alongside a smaller Dream Summit issue (\$0.2 billion o/s). Beyond that, one other bond will see its index status change on April 1st, as the Enbridge Gas 2.9% 4/1/2023 issue (\$0.6 billion o/s) rolls over from 'Mid' to 'Short'.

Chart 1: April 1st not the biggest cashflow day but...

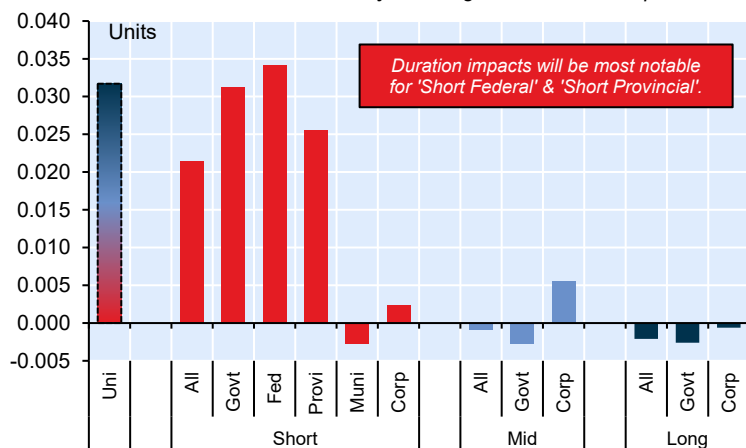
FTSE Canada Universe Bond Index: Largest interest income days (coming 1Y)



Source: NBC, FTSE Russell | Note: Cashflows based on 21-Mar-25 index composition

Chart 3: Duration of 'short' bucket set to increase...

FTSE Canada Universe Bond Index: Projected chg in duration on 1-Apr-25



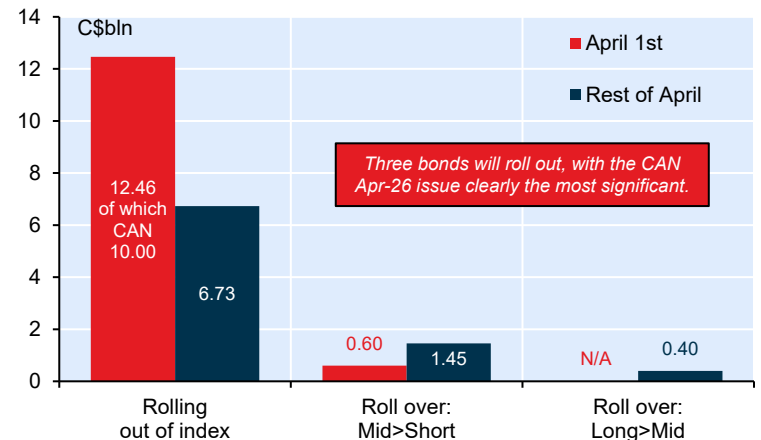
Source: NBC, FTSE Russell | Note: NBC simulations based on closing prices/index composition on 21-Mar-25; assumes no change in yield curve

The nature of impending rolls means larger duration impacts for the 'Short' bucket (all else equal). More specifically, the duration of the 'Short Federal' and 'Short Provincial' sub-sectors should be most significantly impacted (Chart 3). Controlling for shifts in relative weights, we estimate a 0.32 unit increase for the FTSE Canada Universe Bond Index on April 1st. As always, these simulations are based on the latest index constituents/pricing and likewise assume no shift in the yield curve. If you're wondering, this year's April 1st duration impact looks to be largely on par with an equivalent simulation for last year (Chart 4).

While this may pass a 'materiality test' for certain domestic investors, there will obviously be plenty more to control for this April. Moreover, the feds have discontinued 3-year bond issuance, which had been the source of April 1st (and October 1st) GoC bond maturities. So the relatively short(ish) era of GoC-heavy April 1st bond rolls ends in 2025. Come next year, we won't have an April 1st GoC bond roll out to contend with. (The last October 1st GoC maturity has rolled out already.)

Chart 2: ... a handful of bonds will roll (incl. CAN 3% Apr-26s)

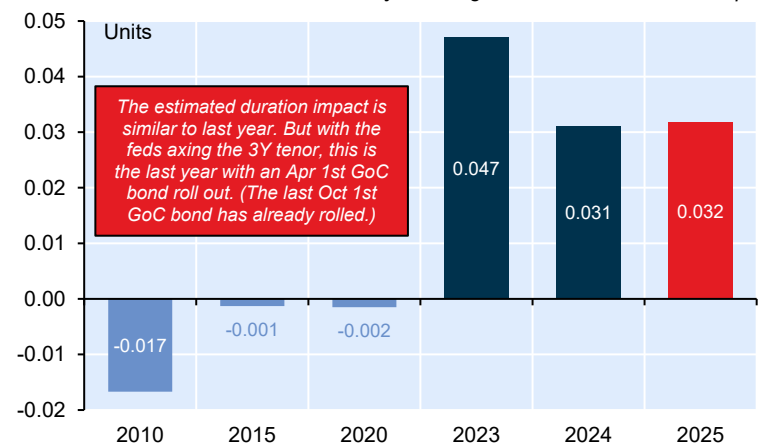
FTSE Canada Universe Bond Index: Nature of bond rolls in Apr-25



Source: NBC, FTSE Russell | Note: Bond rolls based on 21-Mar-25 index composition

Chart 4: ... with overall duration impact similar to last year

FTSE Canada Universe Bond Index: Projected chg in universe duration on 1-Apr



Source: NBC, FTSE Russell | Note: NBC simulations based on closing prices/index composition as at 21-Mar each year; in all cases, assumes no change in yield curve



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