

The Twelve Eight Days Pre-Cashflow

By Warren Lovely

On the eighth day pre-cashflow, NBC reminded me...

T-8) Buckets re-weighting

We continue with *'The Twelve Days Pre-Cashflow'*. Our immediately preceding stanza (delivered yesterday on what was T-9 weekdays to the start of December) was: Indices ex-tending. That brings us to T-8 and with it a fresh verse: *Buckets re-weighting*.

The rolling of bonds at the start of December will adjust the relative weights of buckets and sectors of the FTSE Canada Universe Bond Index. We deal with the former today and the latter tomorrow.

The primary bucket re-weighting trigger will be bond roll overs (either from 'Mid' to 'Short' or from 'Long' to 'Mid'). The cascading (or dropping down) of select issues will add marginal weight (and incremental duration) to the 'Short' and 'Mid' buckets.

Meantime, with four Dec-2034 maturities slated for eviction from the 'Long' end on December 2nd, the relative weighting of this bucket will drop. Again, there's nothing particularly subtle about the looming adjustments to the 'Long' end.

As illustrated below, the dynamic interplay between bucket weights and duration gets us to the 0.041 duration extension that we have estimated for the 'Universe' on Monday, December 2nd. (To clarify, that's a 3-day cumulative duration adjustment, inclusive of December 1st impacts.)

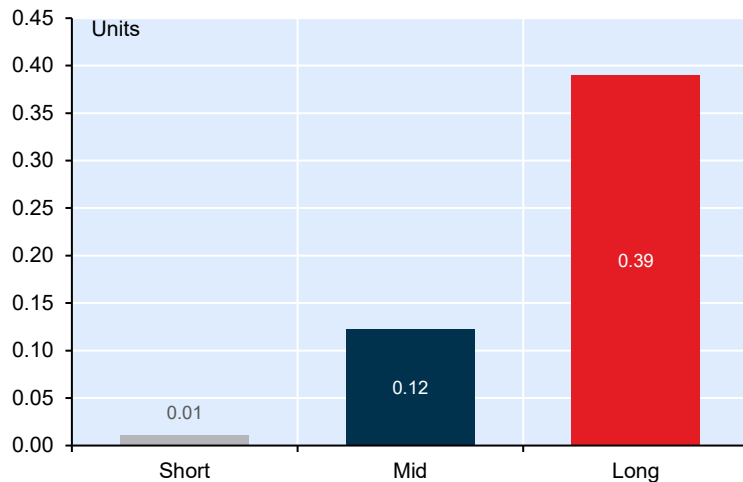
As repeatedly cautioned, all projected changes in weights and duration are based on current index constituents and prices/yields. Clearly, however, Canada's domestic bond market is not static.

We have a couple GoC auctions staring us in the face: 5s on Wednesday, 10s on Thursday. The 10-year GoC auction is particularly noteworthy, since it will add weight to a security that is set to roll over from 'Long' to 'Mid'. Some marginal supply could arrive from other issuers/sectors too. Thus, treat all simulations with a degree of caution.

Our T-7 offering set for tomorrow will be: *Sectors ad-justing*.

Chart T-8(a): Simulated change in duration by bucket...

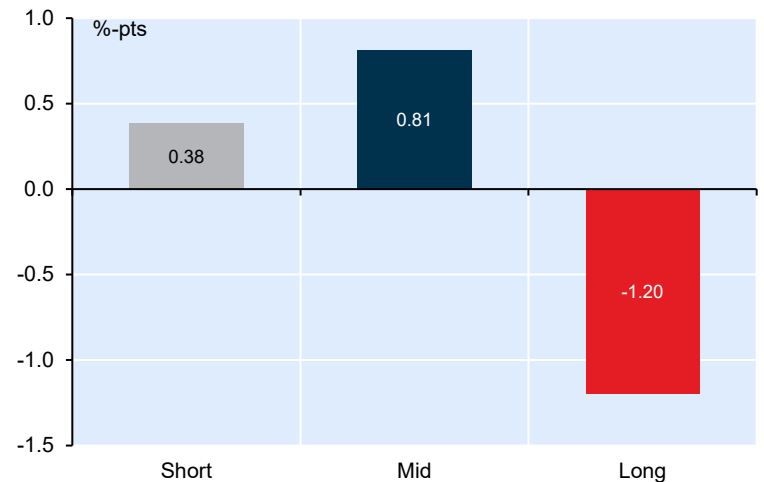
FTSE Canada Universe Bond Index: Projected change in duration on 2-Dec-24



Source: NBC, FTSE Russell | Note: Based on FTSE Canada Universe Bond Index composition as at 15-Nov-24; captures multi-day impact given 30-Nov & 1-Dec fall on weekend; assumes no change in yield curve

Chart T-8(b): ... and revised bucket weighting...

FTSE Canada Universe Bond Index: Projected change in weighting on 2-Dec-24



Source: NBC, FTSE Russell | Note: Based on FTSE Canada Universe Bond Index composition as at 15-Nov-24; captures multi-day impact given 30-Nov & 1-Dec fall on weekend; assumes no change in yield curve

Chart T-8(c): ... gets us to 0.041 expected increase in Universe duration on December 2nd


FTSE Canada Universe Bond Index: Projected change in modified duration & relative weighting by bucket on 2-Dec-24


Bucket > Metric >	'Short' bucket		'Mid' bucket		'Long' bucket		'Universe' Mod duration
	Mod duration	Weight	Mod duration	Weight	Mod duration	Weight	
Date	Units	% of Universe	Units	% of Universe	Units	% of Universe	Units
Friday, November 29, 2024	2.665	41.4%	6.441	29.2%	14.434	29.4%	7.226
Monday, December 2, 2024	2.676	41.8%	6.564	30.1%	14.824	28.2%	7.267
3-day change	0.011	0.4%	0.122	0.8%	0.390	-1.2%	0.041

Source: NBC, FTSE Russell | Note: Note: Based on FTSE Canada Universe Bond Index composition as at 15-Nov-24; captures multi-day impact given 30-Nov & 1-Dec fall on weekend; assumes no change in yield curve




NBC's 'The Twelve Days Pre-Cashflow' (2024 edition)

T-12) Coupons a-clipping (released November 14th) 

T-11) Cash con-centrating (released November 15th) 

T-10) Bonds a-rolling (released November 18th) 

T-9) Indices ex-tending (released November 19th) 

T-8) Buckets re-weighting (released November 20th) 

T-7) Sectors ad-justing (coming November 21st)

T-6) Yields a-falling (coming November 22nd)

T-5) Curves a-flattening (coming November 25th)

T-4) Diffs com-pressing (coming November 26th)

T-3) Spreads a-tightening (coming November 27th)

T-2) Issuers a-waiting (coming November 28th)

T-1) One golden rule (coming November 29th)

Other Dec-24 cashflow-related reports:

December cashflows come into view: Part A (released October 22nd)

December cashflows come into view: Part B (released October 28th)

December cashflows come into view: Part C (released November 4th)



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