

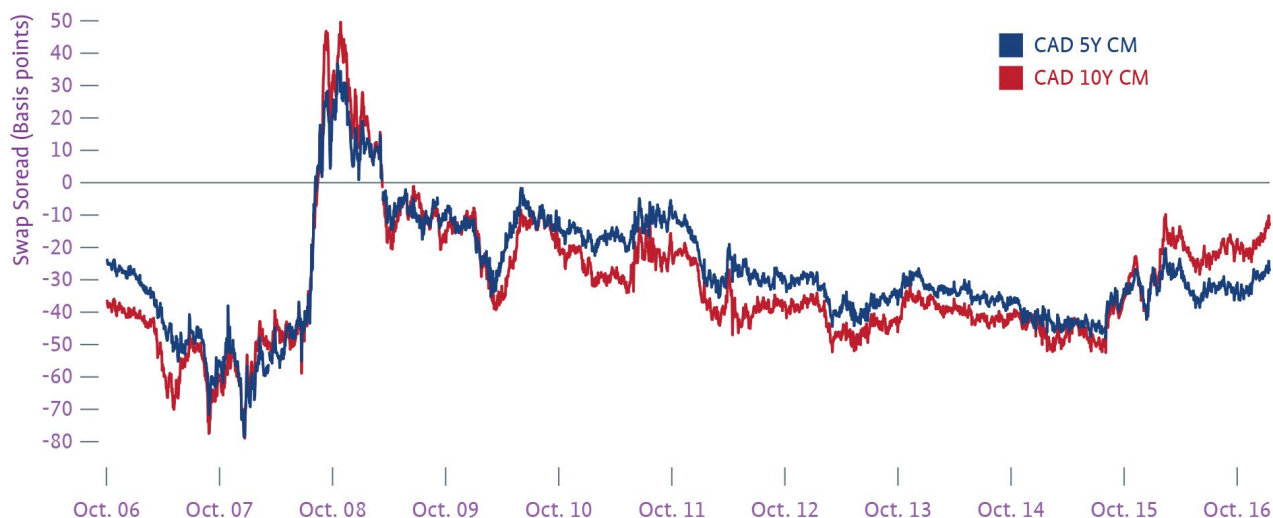
**MONTRÉAL EXCHANGE**

# Canada Swap Spreads

## Recent Tightening

Since reaching a wide point in mid-summer 2015, Canadian swap spreads have tightened (bonds cheapened relative to swaps) to levels not seen for around a year in the 5y segment and are approaching levels not seen in over half a decade in the 10y segment.

**FIGURE 1**  
**5Y and 10Y Constant maturity Swap Spreads, 10 year History**



Source: BMO Capital Markets' Fixed Income Sapphire database

## Invoice Spread<sup>2</sup> Constructions

An investor can create speculative swap spread widening positions without the need to conduct repo operations to fund the bond purchase by using futures contracts which, additionally, trade a little cheap to bonds currently. Some sample constructions are shown below in both the 5-year segment of the yield curve and the 10-year segment of the curve, using CGFH17 and CGBH17 contracts respectively.

1 BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking business of Bank of Montreal, BMO Harris Bank N.A. (member FDIC), Bank of Montreal Ireland plc., and Bank of Montreal (China) Co. Ltd and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada and Asia and BMO Capital Markets Limited (authorized and regulated by the Financial Conduct Authority) in Europe and Australia. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license.

2 For a short discussion of Invoice Spreads, including some of the drivers of swap spreads, refer to the January 2017 update of the CGF Invoice Spread.

**FIGURE 2****CGF Spread Widener Example**

<b>CGFH17 INVOICE SPREAD WIDENER</b>	
Futures Position	Buy 180 contracts CGFH17. (CTD bond = 0.75% sep1/21)
Swap Position	Pay fixed, \$23.45 million notional from Mar31/17 to Sep1/21
Futures DV01	0.0556
Swap DV01	0.0426
Futures Forward Yield	1.165%
Forward Swap Rate	1.456%
Interest Rate (DV01) Exposure	DV01 futures = +\$10,000 DV01 swap = -\$10,000 Net DV01 = \$0
Invoice Spread Level	29.1 bps

**FIGURE 3****CGB Spread Widener Example**

<b>CGBH17 INVOICE SPREAD WIDENER</b>	
Futures Position	Buy 95 contracts CGBH17. (CTD bond = 2.25% Jun1/25)
Swap Position	Pay fixed, \$13.23 million notional from Mar31/17 to Jun1/25
Futures DV01	0.1050
Swap DV01	0.0756
Futures Forward Yield	1.685%
Forward Swap Rate	1.836%
Interest Rate (DV01) Exposure	DV01 futures = +\$10,000 DV01 swap = -\$10,000 Net DV01 = \$0
Invoice Spread Level	15.1 bps

## For more information

[irderivatives@tmx.com](mailto:irderivatives@tmx.com)

**m-x.ca**

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