

C | G | B Ten-Year Government of Canada Bond Futures

C | G | F Five-Year Government of Canada Bond Futures

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.

5Y and 10Y Constant maturity Swap Spreads, 10 year History



Source: BMO Capital Markets¹ Fixed Income Sapphire database

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Invoice Spread² 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.

CGF Spread Widener Example

CGFH17 INVOICE SPREAD WIDENER	
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

CGB Spread Widener Example

CGBH17 INVOICE SPREAD WIDENER	
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

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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.

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