MONTRÉAL EXCHANGE

H26-M26 Roll Update

Q1 / February 2026

QUARTERLY ROLL Summary

Due to a weekend, first delivery for H26 contracts (except LGB®) will be on March 2nd, with first notice on February 27th. Counting back three business days suggests February 24th as the likely start date for the liquid roll period for most contracts with the calendar extension trades wrapping up by the 26th, for those who want to roll their contracts.

Even though CORRA rates have trended a bit higher than target at 2.28-2.29%, they are still lower than the coupons on the cheapest-to-deliver bonds for all the March contracts so early delivery will be the exception, not the norm. For the same reason, all the June (M26) contracts should start trading at either a zero basis to bonds (CGZ®, the 2-year contract) or firmly in positive basis territory. As in recent quarters, wildcard options are without much value but the timing option, the right of the short futures position to deliver early, could be a factor for the CGZM26 (2-year) contract. It should not be a factor in any other contract, given current market expectations.

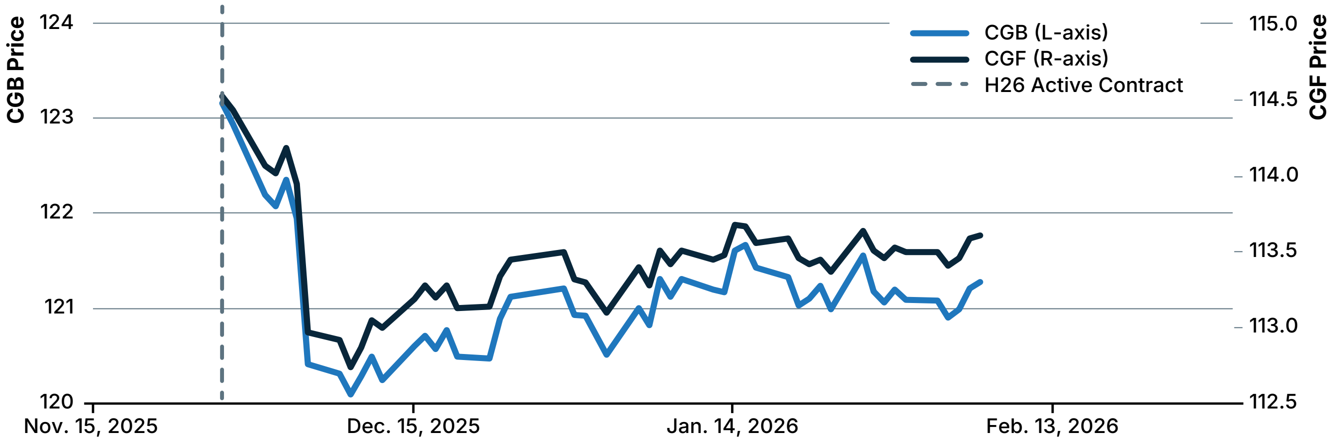
Early deliveries still occur, unusually, despite positive carry for short futures positions and valueless wildcard options. We expect the CGF® and CGB® rolls to be interesting opportunities due to the relative value of the cheapest-to-delivery bond for the CGF and the accumulated positions by speculative, trend-following models in CGB.

Speculative Positioning

After a precipitous price collapse early in the life of the H26 contracts, shown in Figure 1, prices of futures contracts have trended upwards at a slow but steady pace. The mid-December reversal would certainly have shaken out almost all trend-following algorithms; however, the steady ascent since December 11th may have prompted speculative models to add significant risk back in.

FIGURE 1

CGF & CGB Price, H26s



Source: Montréal Exchange

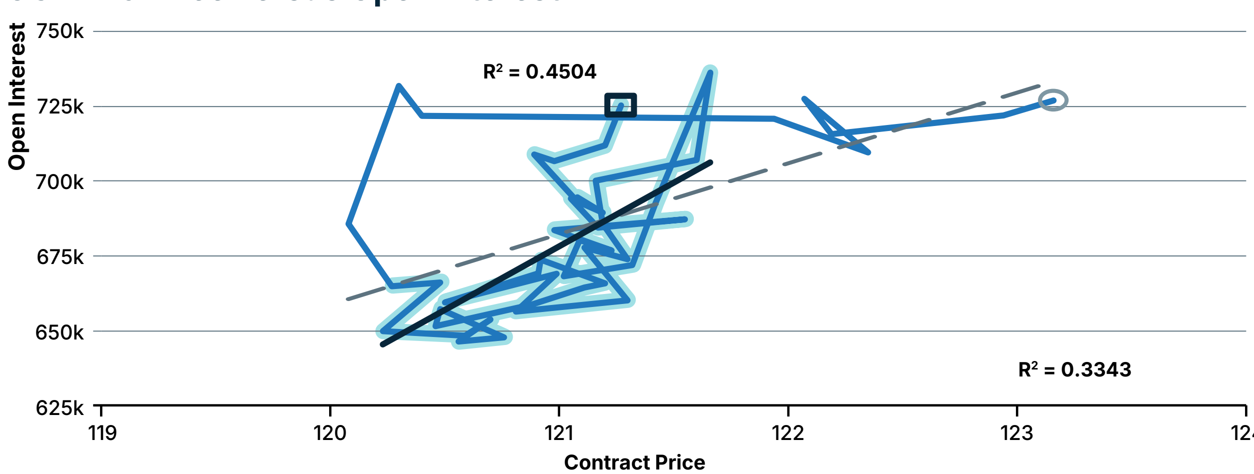
We suspect that algorithmic models, typically operated by firms that are either unable or averse to physical delivery, have built modest-sized long positions during the 5-6 week upward price trend in late December and throughout January.

Although the correlation between the price of the CGBH26 (10-year) contract and its open interest is not particularly high at 0.33 over the entire active life of the March contract, it rises to 0.45 if we examine only the period of time since the big reversal shown in Figure 1. Usually, for Canadian contracts, high correlation between futures contract prices and open interest indicates that algorithmic models are steadily adding positions as prices trend.

Furthermore, at the time of writing, the open interest for CGBH26 is close to its quarterly high, indicating that speculative risk being taken is still high.

FIGURE 2

CGBH26 Price versus Open Interest

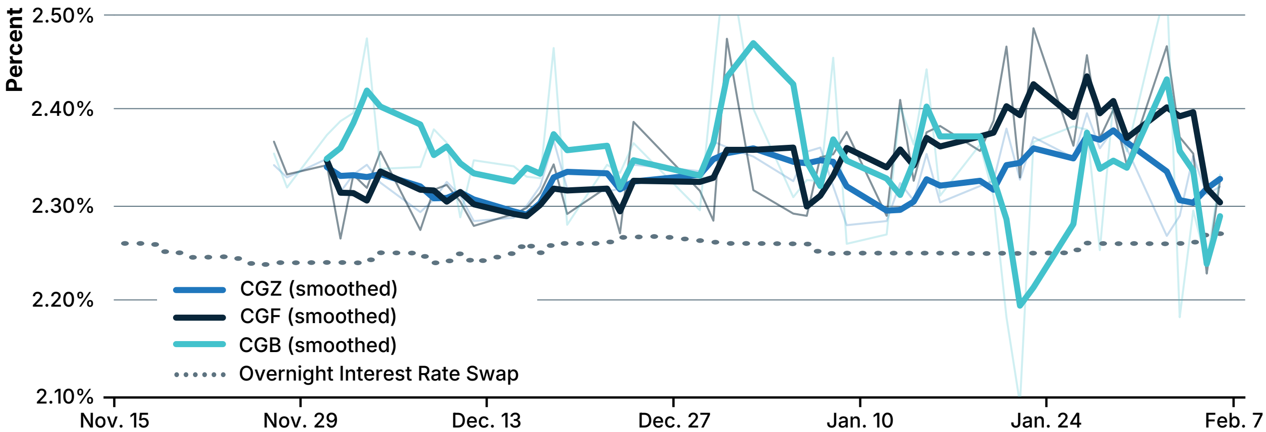


Source: Montréal Exchange

Although the supporting evidence from the relative value between futures contracts and bonds is weak this quarter, Figure 3 shows that futures contracts have traded somewhat rich to the equivalent bond (implied repo has been consistently too high) by several basis points for most of the quarter. Several basis points are considered weak in this case due to the small magnitude of the difference as well as the fact that CORRA has been consistently higher than target, especially recently. However, futures that trade rich to bonds during a price rally are often an indication of price-insensitive buyers. This is because algorithms rarely have the built-in logic to calculate the relative value of the futures contract - which they can readily trade - versus the cash bond market, where many futures market participants cannot reasonably participate in. Buying pressure that is insensitive to relative value is often a sign of momentum/algorithmic portfolios building or reducing positions and relying solely on the futures market.

FIGURE 3

Implied Repo: CGZ, CGF, CGB



Source: BMO Capital Markets[i] Fixed Income Sapphire database, Montréal Exchange

Cheapest-to-Deliver Switch

Each quarter, we struggle to explain the potential for a switch of the cheapest-to-deliver (CTD) bond for Canadian contracts. While switches are quite common in other markets, they remain implausible in all the physical delivery fixed income contracts traded on Montréal Exchange for structural reasons. Our opinion on the subject would change drastically if interest rates rose to approach the 6% assumed coupon used in conversion factor calculations, but until that occurs, switch risk remains so low that it is almost unimaginable.

To illustrate, Figure 4 shows the combination of yield level and slope between bond yields that would result in a change from the June 2034 bond as CTD and the next-most-likely bond, the December 2034. With the June 2034 yield currently at 3.28%, and the December 2034 just 4 basis points higher, it would take a bond selloff of 60 basis points, accompanied by a steepening of the curve by over 4.5 basis points, to cause the switch. This scenario is unlikely given the overall magnitude of the selloff and the fact that higher yields are usually associated with flatter, not steeper, yield curves. In summary, switch risk can never be zero, but one can usually assume it is zero[1] without adverse consequences.

1 If readers trade physical delivery fixed income futures in other markets, they should be warned that this phenomenon is due to unique features of Canadian fixed income markets. Switch risk is often non-zero in other markets.

FIGURE 4

Jun34 Yield

SLOPE	2.68%	2.83%	2.98%	3.13%	**3.28%**	3.48%	3.68%	3.88%	4.08%	4.28%	4.48%	4.68%	4.88%	5.08%	5.28%	5.48%
-5.0	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34
-3.2	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34
-1.4	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34
0.4	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34
2.2	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Dec34
4.0	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Jun34**	**Dec34**	**Dec34**	**Dec34**
5.2	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Jun34	Dec34	Dec34	Dec34	Dec34
6.4	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Jun34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
7.6	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Jun34	Jun34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
8.8	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Jun34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
10.0	Jun34	Jun34	Jun34	Jun34	**Jun34**	Jun34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34

Source: Author Calculations

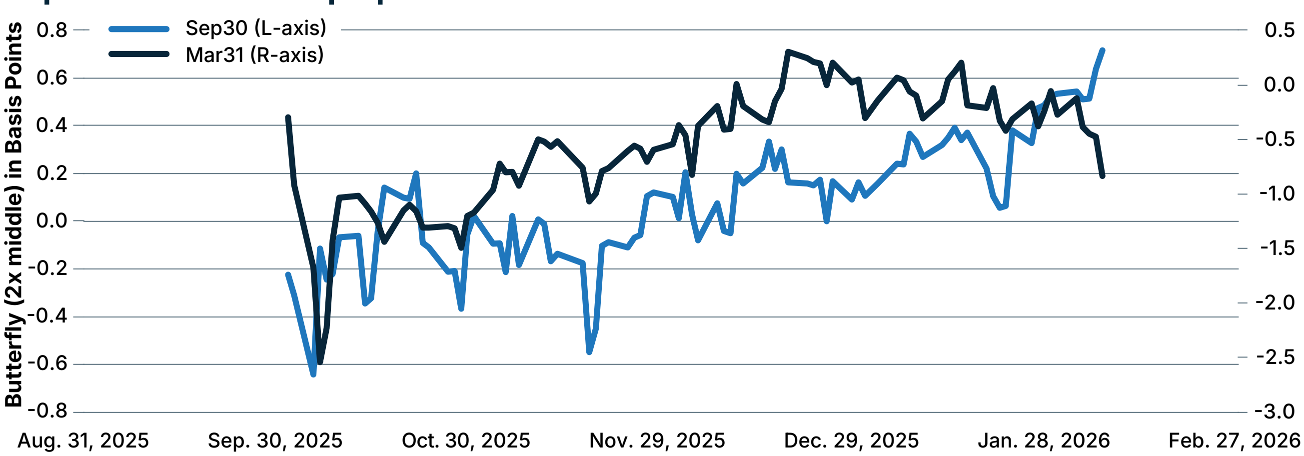
Relative Value of the CTD Bonds

Figure 5 illustrates the divergence between the yield butterfly for the September 2030 bond, the CTD for the March 2026 CGF (5-year) contract, and the March 2031 bond, which will be the CTD for the June and September contracts. Due to the auction schedule, the September 2030 has steadily cheapened versus neighbouring maturities since the end of October, an unusual occurrence given that the September 2030 is also the benchmark bond, which usually carries a liquidity premium. Additionally, the March 2031 is the current auction bond that often trades at a discount due to periodic issuance by the Bank of Canada on behalf of the Canadian treasury. However, instead of becoming cheaper, that bond has been richening.

Regardless of the rationale, we can observe that the CTD for the March contract is trading historically cheap relative to its neighbours while the March 2031, CTD for the new June 2026 contract, is somewhat rich compared to its recent history.

FIGURE 5

Sep30 vs Mar31 Swap Spread Butterflies



Source: BMO Capital Markets[i] Fixed Income Sapphire database

Key Metrics & Notes

As usual, we present tables of key metrics for each contract this quarter in Figures 6, 8, 9, and 10. We used closing prices on February 6th, and all June 2026 contracts still had zero open interest, as is always the case, so we used the Exchange settlement price even though it is usually not a tradable price before the roll begins.

CGBH26 to CGBM26

There is no change to the probable cheapest-to-deliver bond (CTD) for the CGB (10-year) contract this quarter. As a result, the contract's DV01 will not change much, and the fair value of the roll will remain stable intraday, even with significant intraday changes to the level of interest rates. Supply and demand for the front versus the back contract will bring additional volatility to the roll price beyond a fair value calculation.

We believe algorithmic models are long futures contracts after the extended but slow rally in contract prices, but they may not be at full risk due to the extreme reversal in fixed income prices several weeks ago. Dealer trading desks are probably short contracts, hedged with bonds (long basis), in response to the lengthy accumulation of open interest from the long side as prices rose.

Due to the positive carry on long basis positions and small hedge tails, the option value[2] for the CGB contract is essentially zero. Unless illiquidity or position size compels, long basis CGB positions will not be taken into delivery unless futures continue to trade rich relative to bonds (long basis positions need to buy futures to close or roll), which is currently the case.

Accumulated long positions that are very wary of delivery have an incentive to close early and are also price-insensitive from a relative value perspective. Once again, this month, dealing desks, which are experts in relative value and have no issues taking their positions into the delivery period, need a compelling reason to exit their short futures positions. Watch for patient dealing desks and other basis traders to allow the roll price to fall (March contract price down relative to June price) before they are tempted to unwind their short contract positions and long bond hedges.

FIGURE 6

CGB Key Metrics

6-FEB-2026	CGBH26	CGBM26	DIFFERENCE
Closing Price	121.270	120.340	0.930
Cheapest-to-Deliver (CTD)	CAN 3.000% Jun 2034	CAN 3.000% Jun 2034	No change
CTD Conversion Factor	0.807	0.8116	
Probable Delivery Date	31-Mar-26	30-Jun-26	
Gross Basis (cents)	9.6	29.3	
Net Basis (cents)	-0.6	0.6	
Implied Repo (to Prob. Delivery)	2.33%	2.29%	
DV01/contract, current CTD	8.8	8.8	-0.6%
Open Interest	725,107	0	
CTD Outstanding (millions)	34,000	34,000	0
Front OI Multiple of CTD	2.1x	2.1x	

Source: BMO Capital Markets[i] Fixed Income Sapphire database, Montréal Exchange

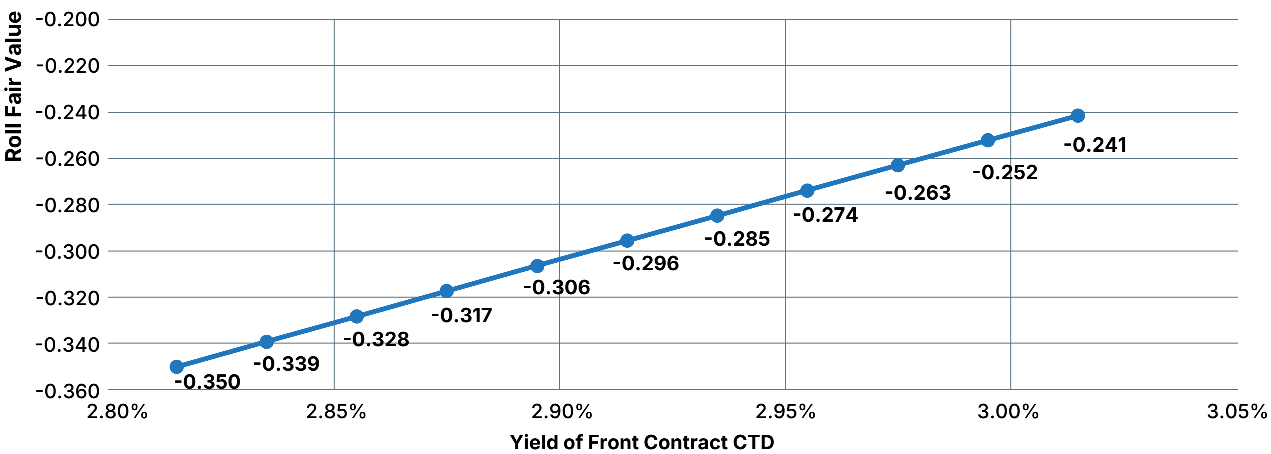
2 Refer to the Wildcard Option section below for more detail.

CGFH26 to CGFM26

As mentioned earlier in the Relative Value section, this quarter's change to the CGF (5-year) cheapest-to-deliver bond will make the roll's intraday pricing relatively unstable due to the 10.6% extension in DV01 between the two contracts. Participants should be careful about leaving standing orders with brokers or on electronic platforms, as normal changes in interest rates can easily change the fair value of the roll by several cents, as shown in Figure 7.

FIGURE 7

CGFH26/CGFM26 Roll Fair Value v. Rate Level, Feb 24/26



Source: Author calculations

Also, as discussed previously, the CGFH26 (March 5-year contract) CTD has steadily cheapened, while the M26 (June) contract CTD has richened somewhat. Short futures positions should be aware that they are rolling to a more attractive relative value position in the 5-year sector and may be more inclined to roll early. Unlike the CGB contract, the correlation between the contract price and open interest was not particularly strong this quarter. Additionally, open interest declined by about 10% from the highs reached during the quarter (not shown). As a result, we are not confident that this contract will need to cheapen relative to the June contract to find liquidity points, and much of the trading may take place between short and long positions that are both satisfied with existing pricing.

FIGURE 8

CGF Key Metrics

6-FEB-2026	CGFH26	CGFM26	DIFFERENCE
Closing Price	113.600	113.860	-0.260
Cheapest-to-Deliver (CTD)	CAN 2.750% Sep 2030	CAN 2.750% Mar 2031	Change!
CTD Conversion Factor	0.8735	0.8673	
Probable Delivery Date	31-Mar-26	30-Jun-26	
Gross Basis (cents)	7.0	22.8	
Net Basis (cents)	0.9	5.2	
Implied Repo (to Prob. Delivery)	2.33%	2.21%	
DV01/contract, current CTD	4.8	5.3	10.6%
Open Interest	265,607	0	
CTD Outstanding (millions)	42,000	21,000	-21,000
Front OI Multiple of CTD	0.6x	1.3x	

Source: BMO Capital Markets[i] Fixed Income Sapphire database, Montréal Exchange

CGZH26 to CGZM26

The norm for the 2-year contract (CGZ) is to issue a new cheapest-to-deliver bond each quarter, a standard that will remain unchanged if the current auction schedule and the delivery basket specifications are not altered. A long basis trade on the March contract is still positive carry, so most contracts that enter delivery should be delivered at the end of the month rather than the start, since the wildcard option never has any significant value for this contract. Note that the futures gross basis for this contract may trade negative since the coupon on the CTD exactly matches the current Bank of Canada target rate. As of early February, the holder of a short position would be roughly indifferent between delivering at the start or end of the delivery period.

Algorithmic models may be involved this quarter; however, there is no evidence to support this. With very little monetary policy change expected over the next year, many models may have moved further out the yield curve. The correlation between price and open interest for this contract was very low this quarter.

Due to the 14.2% DV01 extension per contract, the CGZ roll will, as usual, be unstable intraday. A fair value change of up to $0.02 could happen if there was some volatility at the front of the curve.

FIGURE 9

CGZ Key Metrics

6-FEB-2026	CGZH26	CGZM26	DIFFERENCE
Settle Price	105.755	105.625	0.130
Cheapest-to-Deliver (CTD)	CAN 2.50% Nov 2027	CAN 2.25% Feb 2028	Change!
CTD Conversion Factor	0.9452	0.9413	
Probable Delivery Date	31-Mar-26	01-Jun-26	
Gross Basis (cents)	2.3	-0.5	
Net Basis (cents)	-0.4	0.4	
Implied Repo (to Prob. Delivery)	2.32%	2.28%	
DV01/contract, current CTD	1.8	2.0	14.2%
Open Interest	337,489	0	
CTD Outstanding (millions)	30,000	18,000	-12,000
Front OI Multiple of CTD	1.1x	1.9x	

Source: BMO Capital Markets[i] Fixed Income Sapphire database, Montréal Exchange

LGBH26 to LGBM26

LGB (30-year) participation was light this quarter, likely due to a relatively large player not participating. Open interest topped out at just over 300 contracts, and the lack of a delivery period or a wildcard option will make the LGB roll relatively inactive this quarter. For this contract, open interest does not usually approach zero until a few days before the delivery date because there is no threat of early delivery for long futures positions.

With no monetary policy activity expected from the Bank of Canada during the roll period, we expect LGB rolls to be very orderly and to trade at or near fair value, as is often the case. With just a tiny DV01 change between the two contracts, the roll should be stable intraday, and it should be safe to leave standing roll orders at dealers, even if rates are moving intraday.

FIGURE 10

LGB Key Metrics

6-FEB-2026	LGBH26	LGBM26	DIFFERENCE
Settle Price	144.300	143.500	0.800
Cheapest-to-Deliver (CTD)	CAN 3.500% Dec 2057	CAN 3.500% Dec 2057	No change
CTD Conversion Factor	0.6470	0.6481	
Probable Delivery Date	20-Mar-26	19-Jun-26	
Gross Basis (cents)	17.4	53.4	
Net Basis (cents)	3.1	5.6	
Implied Repo (to Prob. Delivery)	1.99%	2.14%	
DV01/contract, current CTD	26.9	26.9	-0.2%
Open Interest	290	0	
CTD Outstanding (millions)	23,000	23,000	0
Front OI Multiple of CTD	0.0x	0.0x	

Source: BMO Capital Markets[i] Fixed Income Sapphire database, Montréal Exchange

December 2026 Delivery Summary

Despite positive carry for short futures positions, there were still some early deliveries in each of CGZZ26, CGFZ26, and CGBZ26, which seems inexplicable. In none of the early delivery cases did the afternoon price increase justify a wildcard exercise, although we cannot rule out that it was not a driver of the short positions' decision to deliver early. The early deliveries were small on the 2-year and 5-year contracts, but participants who gave notice on December 4th, 5th, and 22nd (after the wildcard option expired) on the CGB contract forwent significant amounts of the remaining positive carry. There are plausible explanations for how this can make sense, typically rooted in the exercising firm's cost of balance sheet usage or in market opportunities elsewhere that can only be pursued if some risk or capital is freed up from old trades. Still, we are surprised that early exercise occurred at such a size, given the positive carry for hedged short futures positions.

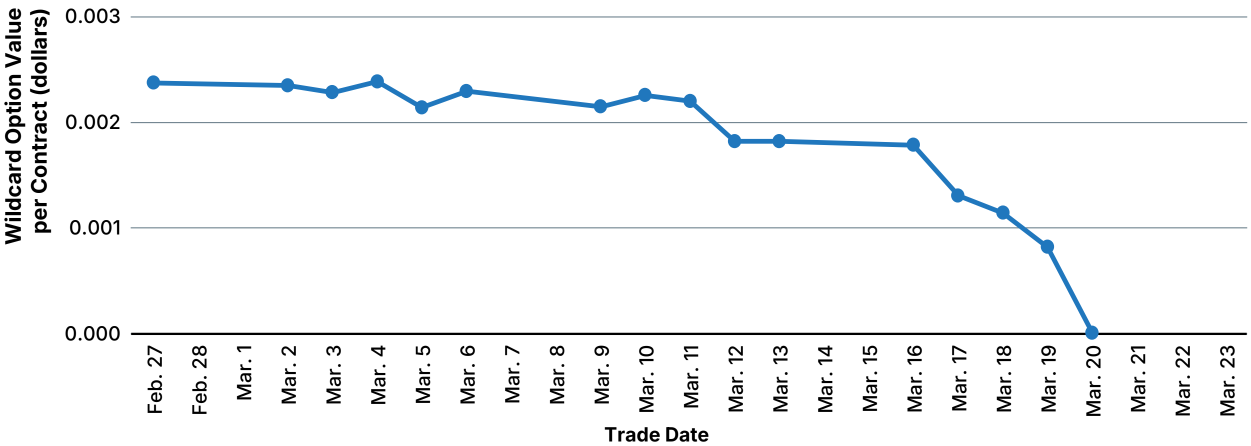
Wildcard Option Value

We recently wrote about smaller hedge tails and positive carry for long basis positions, which eliminate wildcard exercise opportunities for the next few quarters in a January 2026 piece[3] for Montréal Exchange.

The CGBH26 Wildcard option value is, at best, about a quarter of a cent (Figure 11), which would be very difficult to monetize, even if you can obtain the option for nothing or less than nothing[4]. More likely, natural hedged short positions in this contract will use opportunities in the afternoon to exit their positions at better levels than they could during the roll period, unless March futures cheapen relative to June when the liquid days of the roll are upon us.

FIGURE 11

CGBH26 Wildcard Option Value



Source: Author calculations

3 Interested readers can read more here.

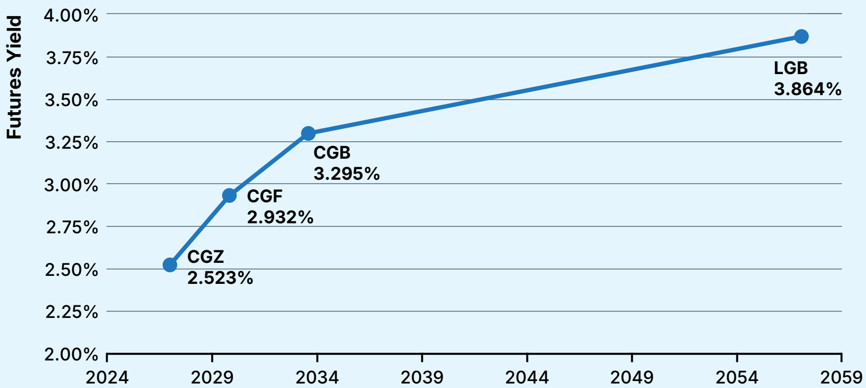
4 Due to the consistent richness of futures versus bonds this quarter, buyers of basis were probably able to obtain the options at a slightly negative price.

LOOKING FORWARD & Opportunities

- Cross-currency opportunities may be attractive, but managers should be wary of a slow decoupling between the Canadian and U.S. markets and economies. This may be a decades-long phenomenon, as we discussed almost a year ago[5].
- From a rolldown perspective, the "best" point on the Canadian yield curve right now is the 5-year point, where one picks up 14.4 basis points of yield annually. The futures yield curve is shown in Figure 12. The 5-year point also easily beats the 2-year point in terms of yield pickup to overnight, given current yields, since the 2-year yield is only 23 basis points higher than recent CORRA prints.

FIGURE 12

Futures Yield Curve: Active Contracts



Source: Author Calculations

5 "Slow Decoupling Underway" published by Montréal Exchange in May 2025.

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