




MONTRÉAL EXCHANGE

M26-U26 Roll Update



Q2 / May 2026



QUARTERLY ROLL Summary

First delivery for M26 contracts (except LGB) will be on June 1st with first notice on May 29th due to a weekend. Counting backwards by the usual 3 business days results in May 26th as the likely start date of the liquid roll period for most contracts with the calendar extension trades wrapping up by the 28th, for those that want to roll their contracts. One issue to consider is that the U.S. Memorial Day holiday is the day immediately prior to the day we identify above as the start of the roll. Will U.S. managers want to roll before they begin their holiday, resulting in an early start and some early liquidity on the 22nd of the month? This phenomenon is sometimes observed, but normally only when a U.S. holiday falls inside the normal roll period for Montréal Exchange futures contracts. We will not rule it out here, but believe there is plenty of time after the US holiday to conduct the quarterly roll.

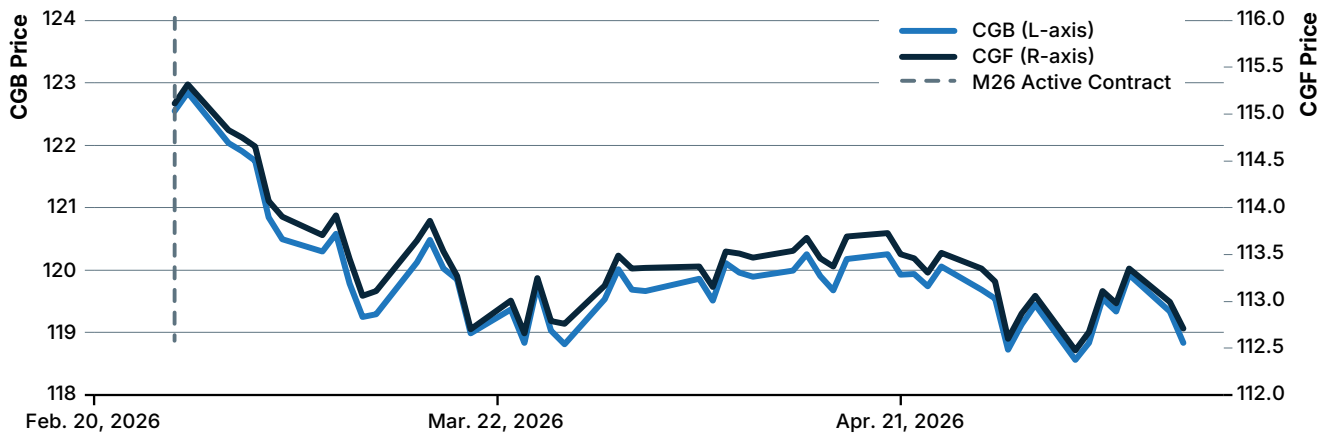
CORRA rates are lower than the coupons on the cheapest-to-deliver bonds for all the June contracts so early delivery is not expected, although the 2.25% coupon on the CGZ contract makes early and late delivery a wash, essentially. Some CGZ (2-year) short positions may deliver early simply because they free up capital for profitable uses, rather than because they are more profitable than holding to the end of the month. As in recent quarters, wildcard options are without much value and any wildcard-related activity outside of the CGB (10-year) contract would be very surprising.

Despite high open interest, we are unable to predict much about speculative model positions this quarter but suggest that bank dealing desks have been participating heavily in relative value futures trades (futures basis) due to the wealth of opportunities there this quarter. The roll will pit price-sensitive traders versus each other, with fewer price-insensitive portfolios involved to initiate roll price moves.

Speculative Positioning

Few market participants will be able to discern any type of lasting trend in the chart of CGF and/or CGB prices this quarter after the first week of March. Both contracts have traded in a roughly 12-15 basis point range (Figure 1) for the past two months, which, we suspect, means that few large positions exist in speculative models that follow trends.

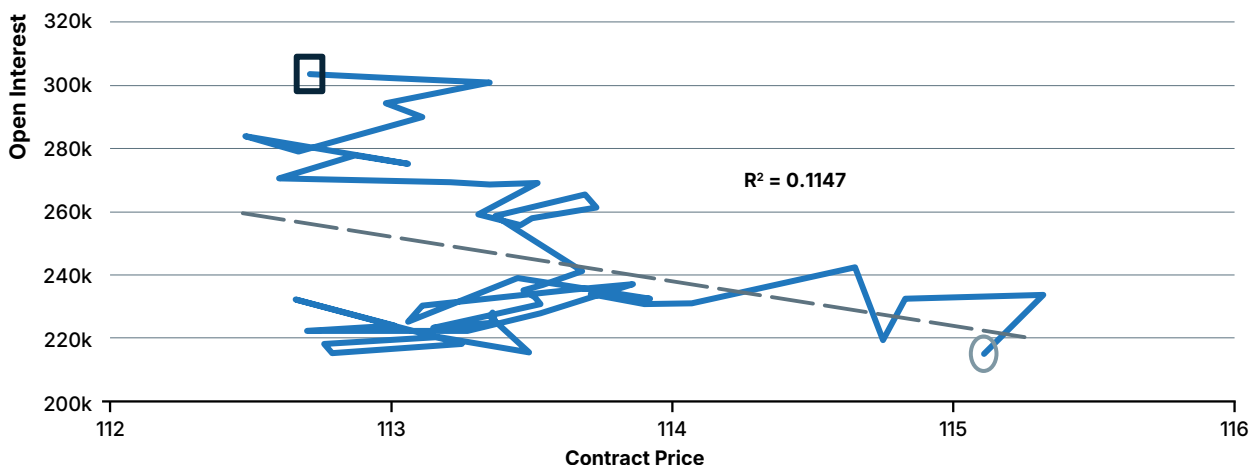
FIGURE 1
CGF & CGB Price, M26s



Source: Montréal Exchange

Our initial assessment of no algorithmic model involvement is consistent with a complete lack of correlation between price and open interest this quarter in both CGF and CGB contracts. Since the CGB (10-year) contract r-squared coefficient in a regression analysis is almost zero, we show in Figure 2 the regression analysis for the CGF contract this quarter, which is also very low at 0.11. In trending markets, when there was a lot of algorithmic model participation, adding positions and open interest as prices rose or fell, we have observed r-squared values of over 0.7 so a value of 0.11 indicates that there is little speculative model involvement this quarter.

FIGURE 2
CGFM26 Price versus Open Interest



Source: Montréal Exchange

Cheapest-to-Deliver Switch

Rather than discuss, again, all the reasons why we are extremely unlikely to observe a cheapest-to-deliver (CTD) switch in any Montréal Exchange fixed income contract in the foreseeable future, we refer readers to our recent publication “A Deep Dive into Switch Risk”¹ which explains why we again expect no CTD switches this quarter.

For completeness, Figure 3 shows the combination of yield level and yield curve slope between bonds that would result in a CTD switch from the December 2034 bond as CTD and the next-most-likely bond, the June 2035 for the September CGB contract. With the yield of the December 2034 at 3.53% currently, and the June 2035 just 3.3 basis points higher, it would take a bond selloff of 80 basis points accompanied by a steepening of the curve by over 5.5 basis points to cause the switch. This would be unprecedented, to say the least, and we suspect, is not considered a plausible outcome for any Canadian forecaster.

FIGURE 3

Dec34 Yield																
SLOPE	2.93%	3.08%	3.23%	3.38%	3.53%	3.73%	3.93%	4.13%	4.33%	4.53%	4.73%	4.93%	5.13%	5.33%	5.53%	5.73%
-5.0	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
-3.3	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
-1.7	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
0.0	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
1.6	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
3.3	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
4.6	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
6.0	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
7.3	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
8.7	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34	Dec34
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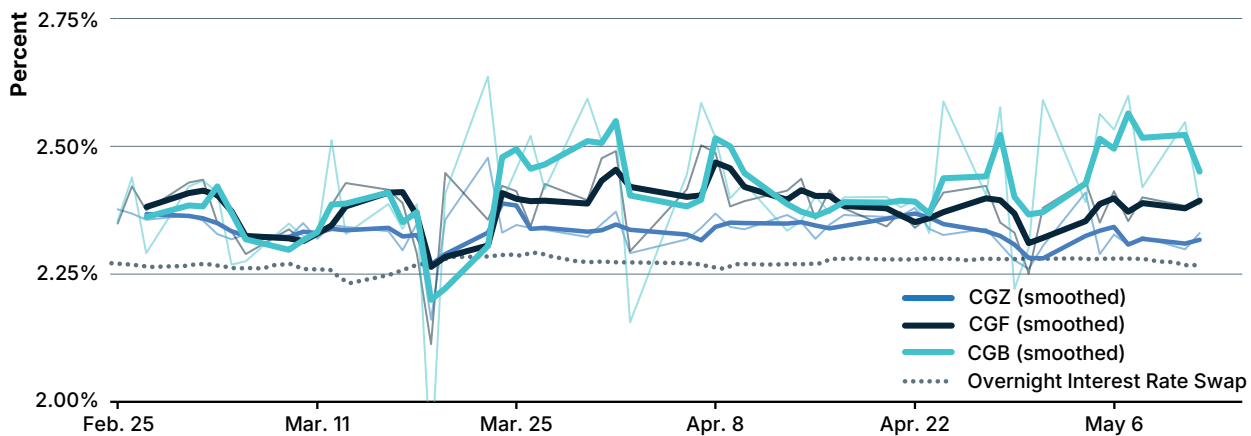
Source: Author Calculations

Relative Value of the CTD Bonds

This quarter, futures contracts have generally been rich relative to their cheapest-to-deliver bond. In Figure 4, we show our calculated value for the implied repo level of a futures basis (short futures, long bonds) trade relative to the overnight interest rate swap (OIS) market. A high implied repo level relative to other short-term interest rates suggests gross basis was low, pointing to potential arbitrage opportunities for basis buyers (selling more expensive futures contracts and buying cheaper bonds to hedge). Market participants have been able to consistently enter long basis trades at levels that provide such arbitrage opportunities, and this phenomenon is still true in mid-May as we write.

¹ https://www.m-x.ca/f_publications_en/futures_flash_article31_en.pdf

FIGURE 4
Implied Repo: CGZ, CGF, CGB

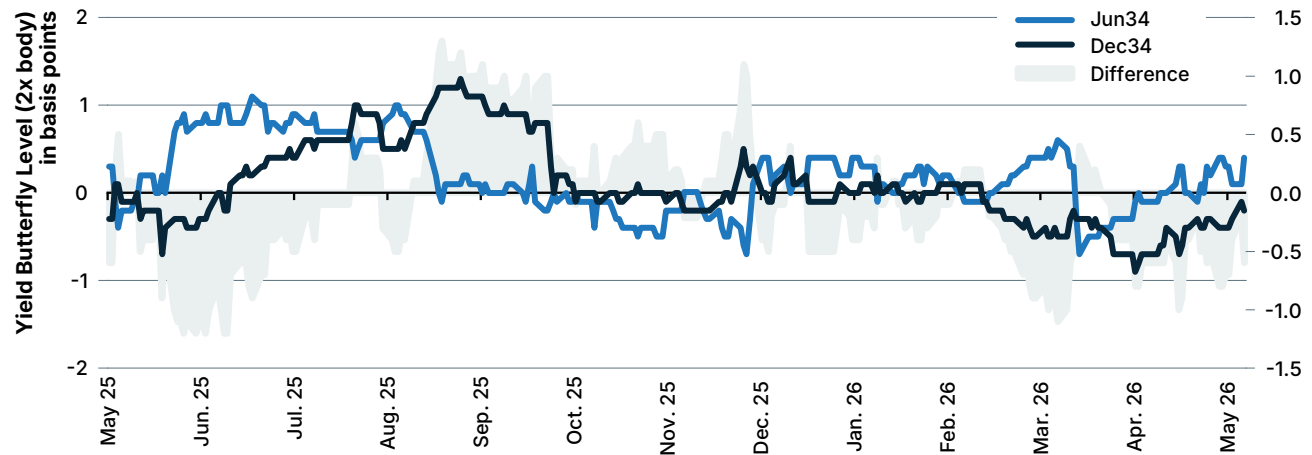


Source: BMO Capital Markets¹ Fixed Income Sapphire database, Montréal Exchange

Our conclusion from the persistent richness of contracts is that demand exists for interest rate exposure without participating in the cash market. Absent algorithmic trading, which is the usual culprit, we can speculate that non-cash hedging needs or opportunistic macro trades may be driving this market.

A mitigating factor in the above comment is that we can also observe that CTD (cheapest-to-deliver) bonds seem to be getting cheaper relative to neighbouring bonds, as shown in Figure 5, rather than richer. If interest rate demand in the futures market was being absorbed by relative value players (including bank dealing desks) who sell futures and hedge by buying cheapest-to-deliver bonds, why are the contract CTDs moving to cheaper levels versus their neighbours? This would ordinarily indicate that futures are being used by interest rate speculators to take short positions in the market, the exact opposite of what the implied repo on futures basis shows in Figure 4.

FIGURE 5
Jun34 v. Dec35 Yield Butterfly



Source: BMO Capital Markets¹ Fixed Income Sapphire database

Key Metrics & Notes

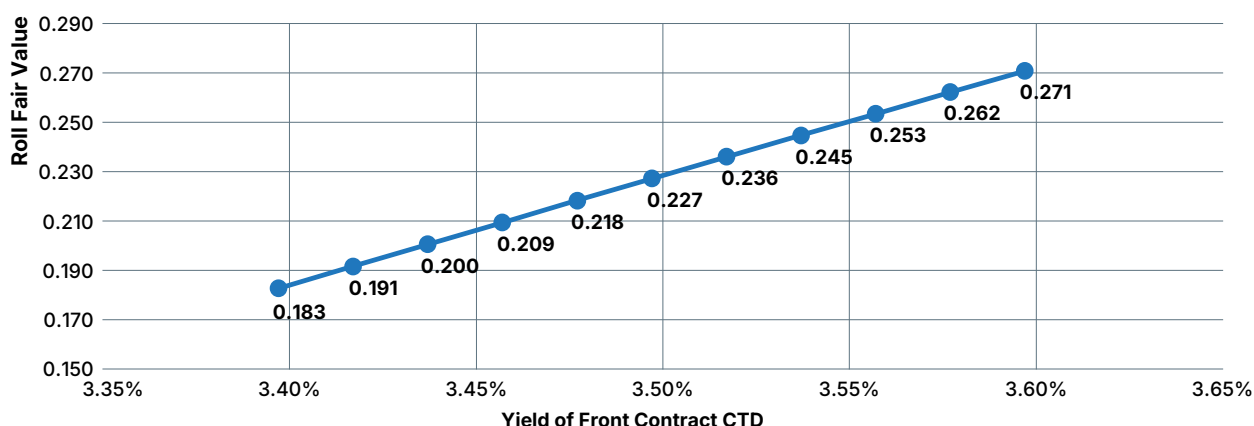
As usual, we show tables of key metrics for each contract this quarter in Figure 7, Figure 8, Figure 9, and Figure 10. We used closing prices on May 12th, but all September 2026 contracts still had zero open interest, as is always the case, so we used the exchange settlement price even though it is usually not a tradeable price before the roll begins.

CGBM26 to CGBU26

There is a 4.6% DV01 extension for the CGB (10-year) contract this quarter as the cheapest-to-deliver bond changes from the 3% June 2034 to the 3.25% December 2034. Even a small DV01 extension causes the fair value of the roll from one contract to the next to be unstable intraday if there is interest rate volatility. We illustrate this in Figure 6, where a move from a 3.5% 10-year yield to 3.45% changes the theoretical fair value of the CGB roll on May 26th from 21.8 cents to about 20.5 cents, just over a 1-cent difference due solely to the different DV01 values of the two futures contracts. Standing orders on the CGB roll carry increased intraday risk during periods of expected volatility this quarter.

FIGURE 6

CGBM26/CGBU26 Roll Fair Value v. Rate Level, May 26, 2026



Source: Author calculations

As discussed above, we can extract no usable information about algorithmic models from open interest and price correlation this quarter. We believe dealer trading desks are probably short contracts hedged with bonds (long basis) since accumulating these positions has been sensible in an environment of relatively rich futures contracts.

As is now normal, due to the positive carry for long basis positions combined with small hedge tails, the option value² for the CGB contract is again small at just half a cent per futures contract. Long basis CGB positions may be taken into delivery if futures continue to trade rich relative to bonds (long basis positions need to buy futures to close or roll), but successful wildcard exercises are not likely.

We are unable to determine what type of participant is long futures contracts but are confident dealing desks at banks are short contracts and hedged, of course, with long bond positions. Dealers are relative value experts and unafraid of the delivery period. Basis traders will seek to allow the roll price to fall (June contract price down relative to September price) before they are tempted to buy contracts to unwind their short position.

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

FIGURE 7
CGB Key Metrics

12-MAY-2026	FRONT (JUN26)	BACK (SEP26)	DIFFERENCE
Closing Price	118.830	118.600	0.230
Cheapest-to-Deliver (CTD)	CAN 3.000% Jun 2034	CAN 3.250% Dec 2034	Change!
Delivery Years (Last delivery)	7.9	8.2	0.3
CTD Conversion Factor	0.8116	0.8230	
CTD Clean Price	96.5369	97.9615	
CTD Yield	3.497%	3.528%	0.031%
Gross Basis (cents)	9.4	35.4	
Probable Delivery Date	30-Jun-26	29-Sep-26	
Net Basis (cents)	-1.0	-3.2	-2.2
Implied Repo (to Prob. Delivery)	2.39%	2.38%	0.00%
DV01/100 of CTD	6.8	7.2	0.4
Open Interest	825,549	0	
CTD Outstanding (millions)	34,000	34,000	0
CTD Notional of Front OI	82,555	82,555	
Front OI Multiple of CTD	2.4x	2.4x	0.0x

Source: BMO Capital Markets' Fixed Income Sapphire database, Montréal Exchange

CGFM26 to CGFU26

With no change to the CTD bond this quarter, the intraday fair value of the roll should be very stable during the day as the DV01 of the contract will fall by just less than one percent. Even for meaningful changes in interest rates, a highly stable roll fair value would carry significantly less intraday risk compared to other contracts.

The wildcard option has almost zero value and the contract carries positively during the delivery period so early delivery is very unlikely here despite the relatively low coupon on the 2.75% March 2031 bond that is the CTD for both the June and September contracts.

Speculative positioning is also an unknown in the 5-year contract, but we note that it has traded rich to bonds for months, suggesting that dealing desks have probably accumulated short positions hedged with bonds, as mentioned above for CGB contracts. They are patient relative value traders and may take a significant portion of their holdings through delivery unless they are offered better levels to unwind their short positions (i.e. CGFM26 must cheapen relative to bonds or to CGFU26).

FIGURE 8
CGF Key Metrics

12-MAY-2026	FRONT (JUN26)	BACK (SEP26)	DIFFERENCE
Closing Price	112.710	111.770	0.940
Cheapest-to-Deliver (CTD)	CAN 2.750% Mar 2031	CAN 2.750% Mar 2031	No change
Delivery Years (Last delivery)	4.7	4.4	-0.2
CTD Conversion Factor	0.8673	0.8735	
CTD Clean Price	97.8050	97.8050	
CTD Yield	3.247%	3.247%	0.000%
Gross Basis (cents)	5.2	17.4	
Probable Delivery Date	30-Jun-26	29-Sep-26	
Net Basis (cents)	-1.9	-3.1	-1.2
Implied Repo (to Prob. Delivery)	2.40%	2.31%	-0.09%
DV01/100 of CTD	4.4	4.4	0.0
Open Interest	303,709	0	
CTD Outstanding (millions)	42,000	42,000	0
CTD Notional of Front OI	30,371	30,371	
Front OI Multiple of CTD	0.7x	0.7x	0.0x

Source: BMO Capital Markets' Fixed Income Sapphire database, Montréal Exchange

CGZM26 to CGZU26

The open interest on the CGZM26 contract is very high at over 400,000 contracts that need to be rolled, closed, or delivered. The norm for the 2-year contract (CGZ) is for a new cheapest-to-deliver bond each quarter and the 2.25% February 2028 will be replaced by the 2.5% May 2028 when the September CGF contract becomes the new active contract.

As with other contracts, this one has traded rich to bonds for many weeks and that can often result in dealing desks accumulating long basis positions. These long basis trades on the June contract are almost a wash from a carry perspective and, given that this portion of the yield curve can consume a lot of dealer balance sheet, we suggest that many positions will be delivered early – more so than if this negligible carry existed at other points on the curve. If a manager is indifferent from a carry perspective and delivering early frees up capital for other opportunities, that manager probably delivers early.

Algorithmic models could be involved this quarter but there is no evidence to support this. The r-squared regression coefficient between price and open interest for this contract was 0.25, still too low this quarter to use it as a reliable indicator.

Due to the 13.4% DV01 extension per contract, the CGZ roll will be unstable intraday. A change of fair value by as much as 2-cents could happen if there was a very volatile day during the roll.

FIGURE 9
CGZ Key Metrics

12-MAY-2026	FRONT (JUN26)	BACK (SEP26)	DIFFERENCE
Closing Price	105.030	104.800	0.230
Cheapest-to-Deliver (CTD)	CAN 2.25% Feb 2028	CAN 2.50% May 2028	Change!
Delivery Years (Last delivery)	1.6	1.6	0.0
CTD Conversion Factor	0.9413	0.9452	
CTD Clean Price	98.8558	99.1050	
CTD Yield	2.935%	2.971%	0.037%
Gross Basis (cents)	-0.9	4.8	
Probable Delivery Date	30-Jun-26	29-Sep-26	
Net Basis (cents)	-1.0	-5.4	-4.4
Implied Repo (to Prob. Delivery)	2.33%	2.39%	0.06%
DV01/100 of CTD	1.7	1.9	0.2
Open Interest	406,575	0	
CTD Outstanding (millions)	30,000	18,000	-12,000
CTD Notional of Front OI	40,658	40,658	
Front OI Multiple of CTD	1.4x	2.3x	0.9x

Source: BMO Capital Markets' Fixed Income Sapphire database, Montréal Exchange

LGBM26 to LGBU26

Participation in the LGB (30-year) was light again this quarter. Open interest is only 300 contracts, and lack of a delivery period or wildcard option will mean the LGB roll will not be very active this quarter. For this contract, the open interest does not usually approach zero until a few days before the delivery date since there is no threat of early delivery for long futures positions.

With current market volatility in rates presenting many opportunities in the front end and belly of the yield curve, managers are not focused on the long end.

FIGURE 10
LGB Key Metrics

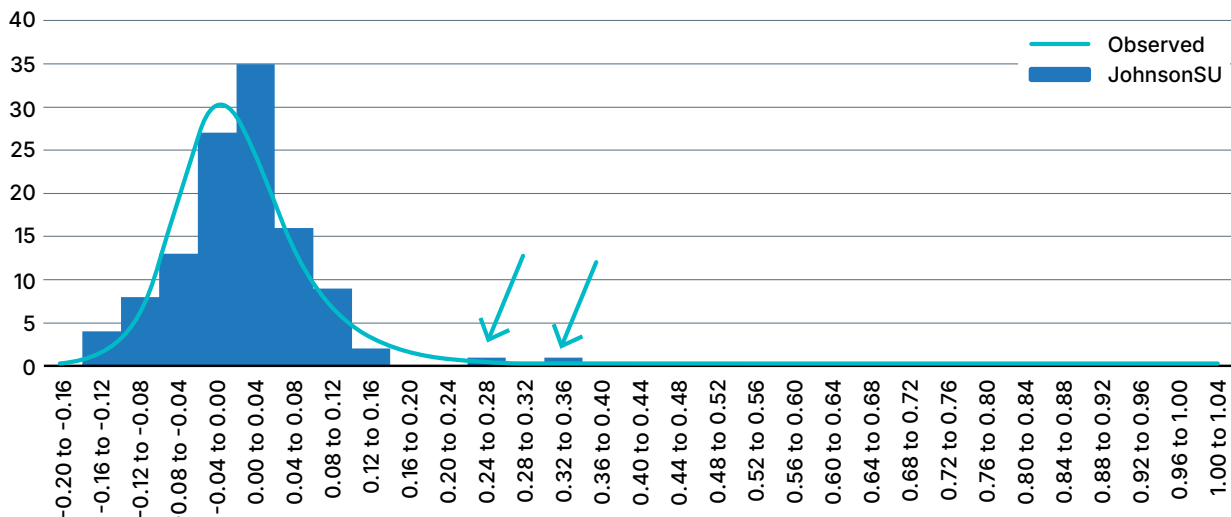
12-MAY-2026	FRONT (JUN26)	BACK (SEP26)	DIFFERENCE
Closing Price	142.050	141.350	0.700
Cheapest-to-Deliver (CTD)	CAN 3.500% Dec 2057	CAN 3.500% Dec 2057	No change
Delivery Years (Last Trading Day)	31.4	31.2	-0.2
CTD Conversion Factor	0.6481	0.6490	
CTD Clean Price	92.0500	92.0500	
CTD Yield	3.942%	3.942%	0.000%
Gross Basis (cents)	-1.3	31.4	
Delivery Date	19-Jun-26	18-Sep-26	
Net Basis (cents)	-15.4	-17.5	-2.1
Implied Repo (to Delivery)	3.96%	2.84%	-1.12%
DV01/100 of CTD	17.0	17.0	0.0
Open Interest	370	0	
CTD Outstanding (millions)	23,000	23,000	0
CTD Notional of Front OI	37	0	
Front OI Multiple of CTD	0.00x	0.00x	0.00x

Source: BMO Capital Markets' Fixed Income Sapphire database, Montréal Exchange

March 2026 Delivery Summary

Outsized afternoon price changes drove deliveries last quarter as there were two afternoons where the bond price move between 3 p.m. and 5 p.m. was double or triple that predicted by the distribution function we use in our wildcard option pricing model, as shown in Figure 11 for 10-year bonds. These unusually large tails, not predicted by the distribution, combined with futures pricing that regularly offers wildcard options for zero or even negative prices, solve the contradiction of low or zero wildcard option values that ultimately result in positive P(L) for some managers.

FIGURE 11
Price Changes 3pm-5pm All



Source: BMO Capital Markets' Fixed Income Sapphire database, Montréal Exchange

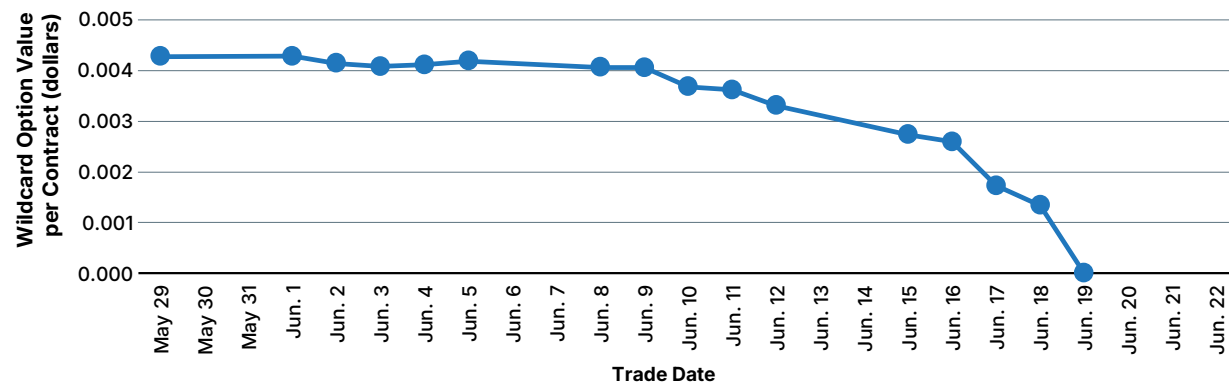
Despite positive carry for short futures positions, there were many early deliveries in each of CGFH26 and CGBH26. All the early deliveries coincided with days when there was a late afternoon surge in bond prices, which indicates that these were wildcard options exercised by early delivery. Although we calculate that the short futures positions that were delivered early would have been more profitable if the manager chose to collect the remaining positive carry, perhaps the capital usage was just too high in these trades to justify carrying them further. We remain surprised that early exercise occurred in such size given the positive carry for hedged short futures positions. Even with the wildcard plays, for each of the 2-year, 5-year, and 10-year contracts, less than 4% of the open interest prior to the roll was taken into the delivery period.

Wildcard Option Value

Small hedge tails and positive carry for long basis positions eliminate wildcard exercise opportunities for the next few quarters, as we discussed in a January 2026 piece³ for Montréal Exchange.

The CGBM26 Wildcard option value is double that of the March contract but still quite negligible. At most, it is now worth about a half cent (Figure 12) of futures contract price, which could still be difficult to monetize, even if you can obtain the option for nothing or less than nothing⁴.

FIGURE 12
CGBM26 Wildcard Option Value



Source: Author calculations

Natural hedged short positions in this contract (bond dealing desks) will use opportunities in afternoon pricing to get out of their positions at better levels than they could achieve during the roll period, unless June futures finally trade cheap to bonds before the end of May. If that happens, dealers that have accumulated short futures positions versus bond hedges (long basis positions) would unwind for profits before the delivery period.

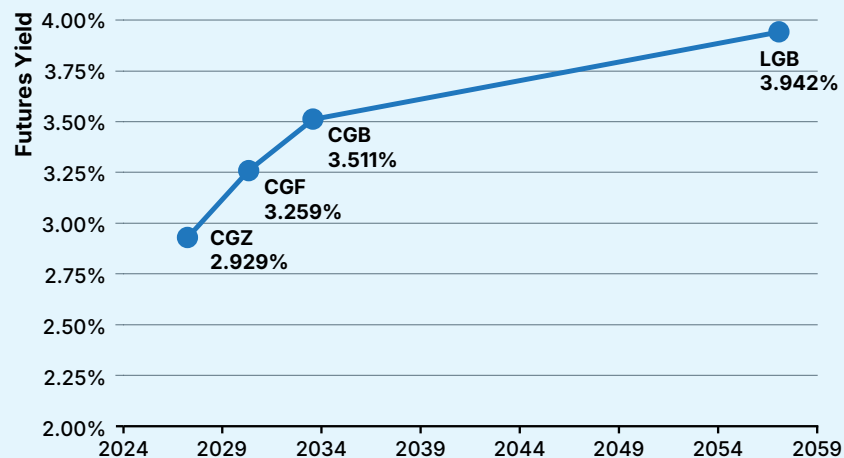
³ Interested readers can read more here: https://www.m-x.ca/f_publications_en/futures_flash_article30_en.pdf

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

- The futures yield curve has repriced significantly since last quarter to reflect the conflict in Iran and the potential for an energy-driven inflation event. From a pure rolldown perspective, the highest yield pickup on the Canadian yield curve is currently at the 2-year point, where one would pick up 39.5 basis points of yield annually, BUT only if the central bank does not raise rates (as is currently reflected in the yield curve) to combat consumer price pressures. The futures yield curve is shown in Figure 13. The 5-year point has just under 11 basis points of rolldown but is not as dependent on avoiding a monetary tightening in the near term.

FIGURE 13
Futures Yield Curve: Active Contracts



Source: Author Calculations



Kevin Dribnenki writes about fixed income derivatives and opportunities in Canadian markets. He spent over 10 years managing fixed income relative value portfolios as a Portfolio Manager first at Ontario Teachers' Pension Plan and then BlueCrest Capital Management. During that time he managed domestic cash bond portfolios as well as international leveraged alpha portfolios and has presented at several fixed income and derivatives conferences. He received a BA in Economics from the University of Victoria, an MBA from the Richard Ivey School of Business, and holds the Chartered Financial Analyst designation.

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