MONTRÉAL EXCHANGE

Z25-H26 Roll Update

Q4 / November 2025

QUARTERLY ROLL Summary

First delivery for December contracts is December 1st, 2025, a Monday, therefore first notice will be the Friday preceding that date, or November 28th. Since there are no non-trading days between the start and end of the roll period, and no holidays to contend with, the liquid days of the futures roll should begin on November 24th and will likely be completed by U.S. Thanksgiving, before the first notice day, the 28th.

With CORRA rates down to 2.26-2.27% after the latest Bank of Canada rate reduction, all December Montréal Exchange fixed income futures contracts should trade at a positive gross basis at the start of the March 2026 contract life. No bond in any of the delivery baskets has a coupon lower than 2.5% (at time of writing), so absent any implausible monetary tightening in the next quarter, negative basis contracts probably will not reappear. Timing options, the right of the short futures position to determine whether to deliver early, should not be a factor for the March 2026 contracts and wildcard option values are nearly zero.

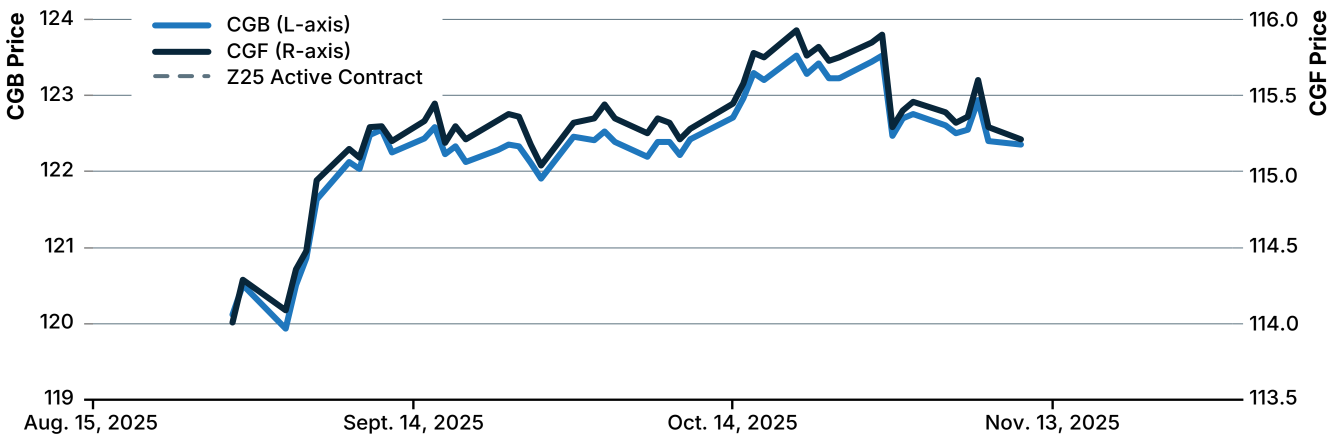
We expect significant selling pressure in front contracts versus back contracts during the roll for reasons outlined below. Opportunities still abound for relative value traders, given the large buildup in open interest that has taken place recently.

Speculative Positioning

Bond and futures contract prices trended upward this quarter, as shown in Figure 1, and open interest in Montréal Exchange futures contracts is very high, leading us to theorize that speculative models are at or near full risk.

FIGURE 1

CGF & CGB Price, Z25s



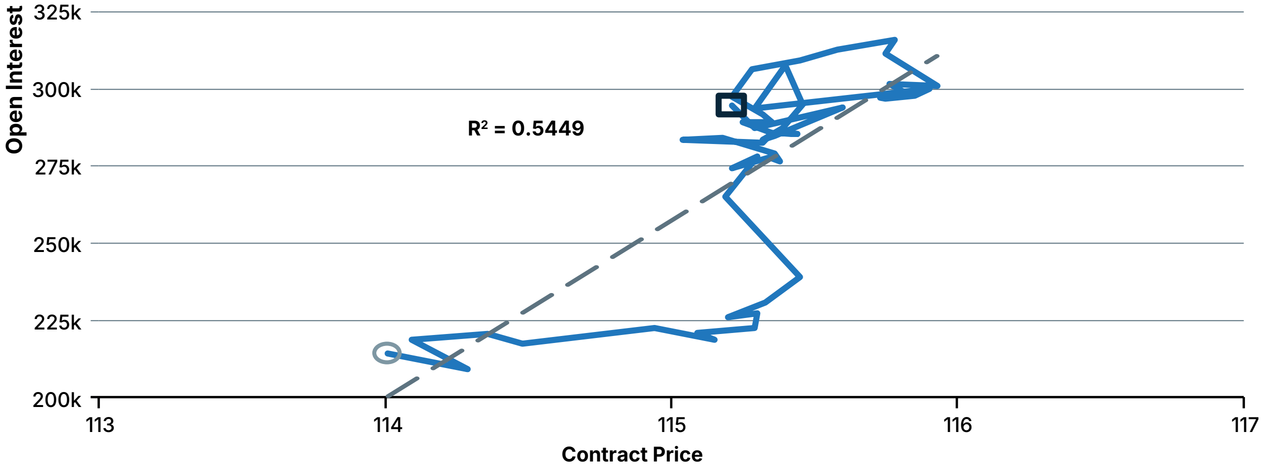
Source: Montréal Exchange

Algorithmic models, typically indifferent to the relative value between bonds and futures contracts, are probably still long at the Canada 5-year or 10-year points, even though the recent bullish trend has been slightly reversed. Less aggressive models may have reduced risk by small amounts, but we suspect most models have not triggered an exit from their long positions.

Often, a high correlation between futures contract prices and open interest means that algorithmic models were steadily adding positions as prices trended. The evidence of this phenomenon is strong this quarter, as shown in Figure 2, where we plot the contract price versus the open interest for the Five-Year Government of Canada Bond Futures (CGF®) contract and find that the r-squared of 0.55 is very high this quarter. For reference, the r-squared metric of a similar regression analysis last quarter was only about 0.10. We do not show the analysis for Ten-Year Government of Canada Bond Futures (CGB®) and Two-Year Government of Canada Bond Futures (CGZ®) this quarter, but they are quite similar. Speculative, trend-following models added futures positions during the rally and, since open interest remains very high, have probably not unwound those positions yet.

FIGURE 2

CGFZ25 Price versus Open Interest

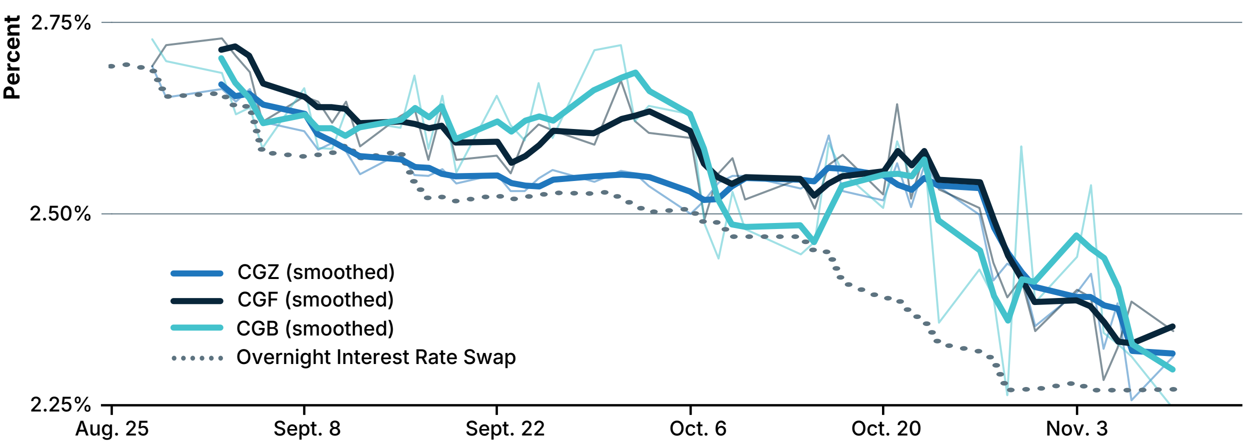


Source: Montréal Exchange

Especially after the first leg up in the September bond rally, futures contracts have traded expensive relative to cheapest-to-deliver bonds, as shown in Figure 3, where the implied repo rate for the contract has been above that of the Overnight Interest Rate Swap (OIS) rate for nearly the entire quarter. Notably, the futures contract premium spiked higher during or shortly after significant price moves, another indication that speculative portfolios have been very involved of late. The "correct" implied repo for CGF and CGB contracts is not below the OIS rate, but almost exactly on it due to the lack of any option value. Most of the richness that futures have displayed versus the cash bond market had eroded by the second week of November.

FIGURE 3

Implied Repo: CGZ, CGF, CGB



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

Cheapest-to-Deliver Switch

Curves are steep but not steep enough to make a cheapest-to-deliver (CTD) switch plausible during the quarter. Perhaps the best way to illustrate how unlikely a CTD switch will be for the March contracts is the table in Figure 4, which shows our sensitivity testing results for the CGFH25 (5-year) contract. In that figure, even though the slope of that segment of the yield curve is over 5.5 basis points, as opposed to being flat or even inverted at various times in the last five years, the curve's steepness is not nearly enough to warrant any concern over switch risk. If, implausibly, there was a 100 basis point selloff during the quarter AND a 10 basis point steepening of the curve, the Canada September 2030 would still be the cheapest-to-deliver for the CGFH26 contract.

FIGURE 4

Sep30 Yield

SLOPE	1.56%	1.86%	2.16%	2.46%	**2.76%**	2.91%	3.06%	3.21%	3.36%	3.51%	3.66%	3.81%	3.96%	4.11%	4.26%	4.41%
-5.0	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
-2.9	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
-0.8	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
1.3	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
3.4	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
5.6	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**	**Sep30**
8.4	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
11.3	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
14.2	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30
17.1	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Mar31	Mar31
20.0	Sep30	Sep30	Sep30	Sep30	**Sep30**	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Sep30	Mar31	Mar31	Mar31	Mar31

Source: Author Calculations

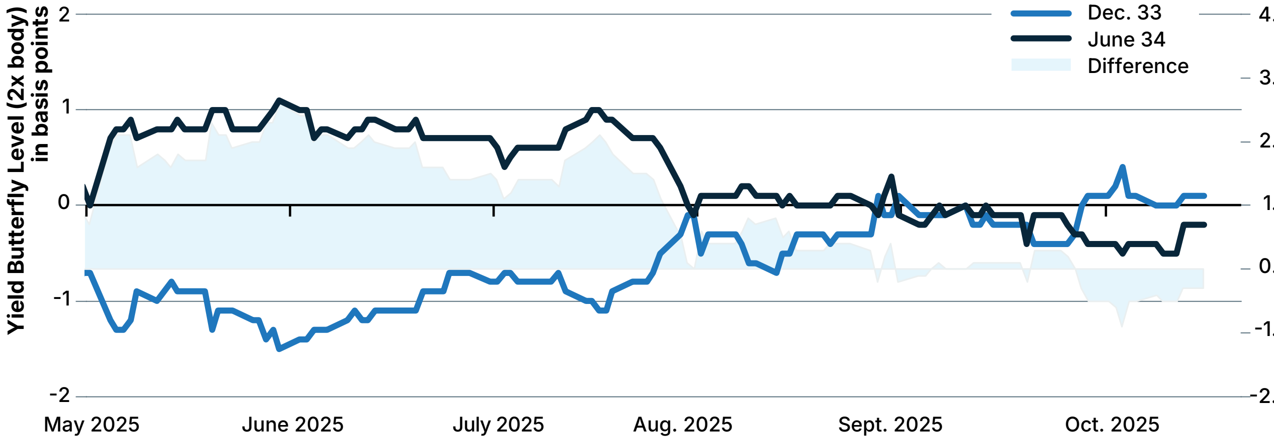
Relative Value of the CTD Bonds

Owing to its high open interest and importance to the Canadian fixed income market, the CGB (10-year) roll is usually the most important for many portfolio managers, especially when there is a cheapest-to-deliver change, as is the case this quarter.

In Figure 5, we illustrate the divergence between the yield butterfly for the December 2033 bond, CTD for the December CGB contract, and the June 2034 bond, which will be the CTD for the March and September 2026 CGB contracts. Starting in mid-summer, the December 2033 bond has generally cheapened (moved higher in the figure) relative to its neighbour bonds, while the June 2034 bond has generally richened, perhaps in anticipation of the sharp increase in liquidity that CTD bonds generally exhibit. However, the auction schedule and introduction of a new benchmark 10-year bond also impact this dynamic. Whatever the explanation, we can observe that the CTD for the December contract is trading historically cheap relative to its neighbours, while the June 2034, CTD for the new March 2026 contract, has taken on a premium relative to its neighbours.

FIGURE 5

Dec33 v. Jun34 Yield Butterfly



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

Key Metrics & Notes

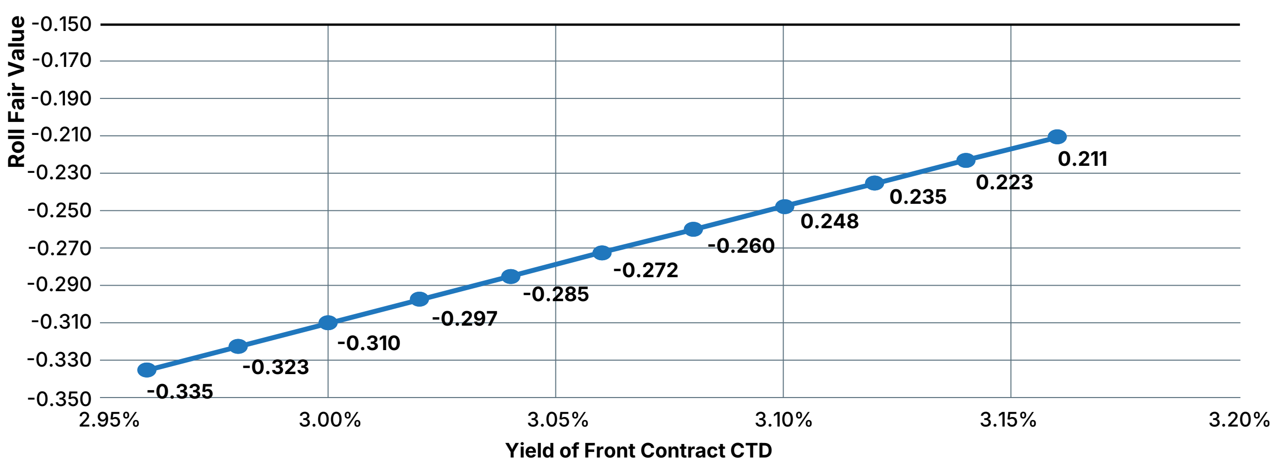
As usual, we present tables of key metrics for each contract this quarter in Figures 7, 8, 10, and 11. We used closing prices on November 10th due to the Remembrance Day holiday, and all March 2026 contracts still had zero open interest as of that date. Therefore, we used the exchange settlement price even though it is usually not a tradable price before the roll begins.

CGBZ25 to CGBH26

The probable CTD for the CGB (10-year) contract changes from the 3.25% December 2033 to the 3% June 2034 this quarter as the active contract changes. As a result, the duration of the CGB contract will extend by about 6.5% and the fair value of the roll will fluctuate with the absolute level of interest rates, even intraday, as shown in Figure 6. Of course, supply and demand for the front versus the back contract will bring additional volatility to the roll price beyond a fair value calculation.

FIGURE 6

CGBZ25/CGBH26 Roll Fair Value v. Rate Level, Nov 25/25



Source: Author Calculations

Algorithmic models that are probably close to full risk, are almost certainly playing the trend from the long side of the market and have accumulated enough positions to push the open interest on the contract to an all-time high. Dealing desks are likely to hold short contracts and long bonds in response to the large flows they observed in the CGB contract this quarter – a position opposite to that of the momentum models. This roll for the CGB contract will be busy and interesting given the current market tilt.

Due to the positive carry for long basis positions combined with very subdued afternoon price volatility in bonds, the option value for the CGB contract is worth almost nothing. We calculate it at less than half a cent per contract this quarter[1]. If participants behave rationally, CGB positions will not be taken into delivery if the gross basis trades at a better-than-fair value, as there is no longer a compelling reason to do so.

Long positions that are very wary of delivery have an incentive to close early and are also price-insensitive, from a relative value perspective. At the same time, dealing desks, which are experts at relative value and have no fear of the delivery period, need a compelling reason to exit their short futures positions. Adding to that mix, a CTD change that makes the fair value of the contract roll volatile and traders reluctant to leave standing orders, which provide a backstop of liquidity, means we expect significant price pressure from the offer side this quarter. Watch for patient dealing desks and other basis traders to allow the roll price to fall (the December contract price down relative to the March price) before they are tempted to unwind their short contract positions and long bond hedges.

FIGURE 7

CGB Key Metrics

10-NOV-2025	CGBZ25	CGBH26	DIFFERENCE
Closing Price	122.350	122.660	-0.310
Cheapest-to-Deliver (CTD)	CAN 3.250% Dec 2033	CAN 3.000% Jun 2034	Change!
CTD Conversion Factor	0.8273	0.807	
Probable Delivery Date	31-Dec-25	31-Mar-26	
Gross Basis (cents)	12.5	25.3	
Net Basis (cents)	0.2	-2.0	
Implied Repo (to Prob. Delivery)	2.25%	2.34%	
DV01/contract, current CTD	8.6	9.2	6.6%
Open Interest	825,653	0	
CTD Outstanding (millions)	21,000	34,000	13,000
Front OI Multiple of CTD	3.9x	2.4x	

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

CGFZ25 to CGFH26

Much like the CGB contract, the open interest for the CGF (5-year) has surged this quarter. Also, like the CGB contract, speculative, momentum-driven models are nearly all-in on this contract on the long side. The wildcard option is worthless, and the contract now carries positively for long basis positions, so many of the same dynamics that will affect the 10-year contract are also applicable here.

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

The only real difference between our analysis of the CGF and CGB contracts this quarter lies in the absence of a CTD change for the 5-year contract (CGF). Both the CGFZ25 and CGFH26 will have the 2.75% September 2030 bond as their CTD, so the DV01 change per contract is minimal, and the fair value of the roll will be quite stable intraday even if interest rates fluctuate. Relative value minded managers can more safely leave standing orders with their broker, which should provide more depth to the market for the roll, a notable difference from the situation with the 10-year contract as mentioned above.

FIGURE 8

CGF Key Metrics

10-NOV-2025	CGFZ25	CGFH26	DIFFERENCE
Closing Price	115.210	114.320	0.890
Cheapest-to-Deliver (CTD)	CAN 2.750% Sep 2030	CAN 2.750% Sep 2030	No change
CTD Conversion Factor	0.8673	0.8735	
Probable Delivery Date	31-Dec-25	31-Mar-26	
Gross Basis (cents)	5.2	11.6	
Net Basis (cents)	-1.0	-6.3	
Implied Repo (to Prob. Delivery)	2.35%	2.47%	
DV01/contract, current CTD	5.2	5.1	-0.7%
Open Interest	294,689	0	
CTD Outstanding (millions)	42,000	42,000	0
Front OI Multiple of CTD	0.7x	0.7x	

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

CGZZ25 to CGZH26

As with the CGB contract, the CGZ contract (2-year) has a change of CTD this quarter, as it almost always does. The 2.5% November 2027 will be the new cheapest-to-deliver bond for the March 2026 contract but, for the first time in many quarters, the contract is now trading at a positive basis since CORRA rates have declined to below the coupon rate of the CTD. A long basis trade on the December contract is now also positive carry, so most contracts that go into delivery will be delivered at the end of the month rather than the start. There are no valuable options embedded in this contract. However, one could imagine (barely) a situation where CORRA rates rise above 2.5% from the current 2.25% and compel the CGZ short positions to deliver early. We doubt that it is anyone’s base case scenario at the moment.

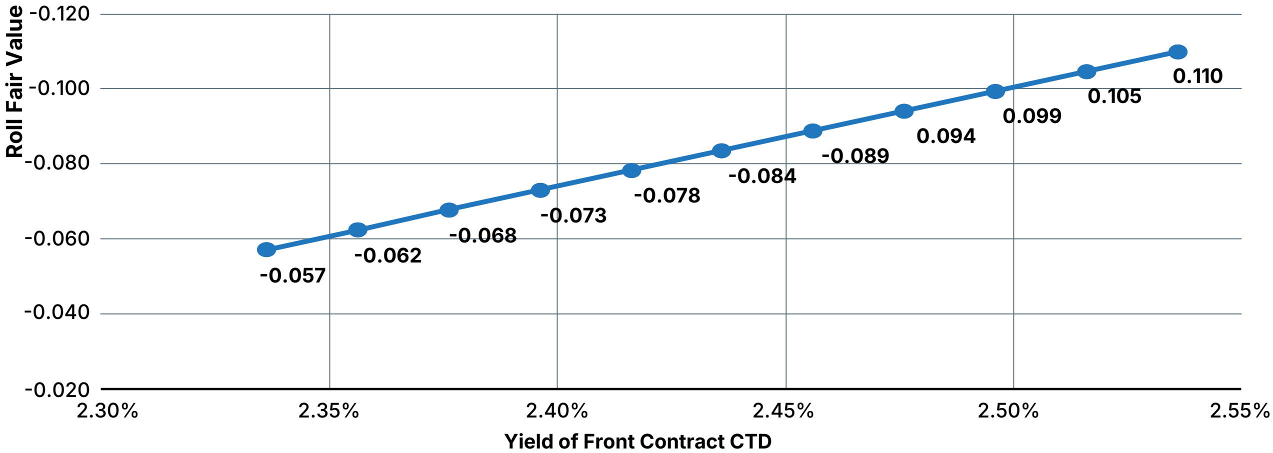
The open interest in this successful contract has now risen to the point where it is normal for several hundred thousand contracts to remain open during the quarter. We have begun to observe pricing dynamics similar to CGF and CGB contracts during the roll. We suspect that algorithmic models are involved and long, probably with a significant amount of risk, if the two-year point of the curve is their preferred expression at present.

Price-sensitive managers will be cautious about leaving standing orders because the CGZ roll fair value pricing can easily fluctuate by a couple of cents intraday due to the 14.2% DV01 extension per contract, as modeled in Figure 9. Although much less is expected given the Bank of Canada’s current stance.

Given the current dynamics of the market, which mirror the situation in the 10-year contract, we expect pricing pressure to be biased to lower roll prices once the activity starts in the CGZ contract; a direct result of impatient long positions versus patient short positions and a modest lack of depth to the market due to potential intraday volatility in the fair value of the roll.

FIGURE 9

CGZZ25/CGZH26 Roll Fair Value v. Rate Level, Nov 25/25



Source: Author Calculations

FIGURE 10

CGZ Key Metrics

10-NOV-2025	CGZZ25	CGZH26	DIFFERENCE
Settle Price	105.885	105.905	-0.020
Cheapest-to-Deliver (CTD)	CAN 2.50% Aug 2027	CAN 2.50% Nov 2027	Change!
CTD Conversion Factor	0.9452	0.9452	
Probable Delivery Date	31-Dec-25	31-Mar-26	
Gross Basis (cents)	2.2	-1.6	
Net Basis (cents)	-0.6	-10.3	
Implied Repo (to Prob. Delivery)	2.31%	2.54%	
DV01/contract, current CTD	1.8	2.0	14.2%
Open Interest	333,729	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

LGBZ25 to LGBH26

Despite relatively high 30-year yields and steep curves, the 30-Year Government of Canada Bond Futures (LGB®) contract remains only lightly utilized by portfolio managers. Open interest of just 700 contracts (low but considerably higher than last quarter) and lack of a delivery period or wildcard option make the LGB roll a non-event for fixed income managers again this quarter. For the LGB contract, specifically, only some of the open interest is closed during the roll period for the other physical delivery contracts; the open interest typically does not approach zero until a few days before the delivery date.

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

FIGURE 11
LGB Key Metrics

10-NOV-2025	LGBZ25	LGBH26	DIFFERENCE
Closing Price	151.150	150.550	0.600
Cheapest-to-Deliver (CTD)	CAN 3.500% Dec 2057	CAN 3.500% Dec 2057	No change
CTD Conversion Factor	0.6462	0.647	
Delivery Date	18-Dec-25	20-Mar-26	
Gross Basis (cents)	12.5	39.2	
Net Basis (cents)	0.2	-4.4	
Implied Repo (to Delivery)	2.22%	2.42%	
DV01/contract, current CTD	28.8	28.7	-0.1%
Open Interest	704	0	
CTD Outstanding (millions)	17,000	17,000	0
Front OI Multiple of CTD	0.0x	0.0x	

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

September 2025 Delivery Summary

For the first time in several years, there were no early deliveries in CGB contracts in September that appeared to be wildcard option related. A positive carry to the end of the delivery month has made early delivery costly for long basis positions, thus greatly increasing the hurdle for profitable wildcard exercises. Both CGZU25 and CGFU25 carried negatively or almost flat during the delivery period, and nearly all contracts were delivered early. Among the four physical delivery contracts, about 3% of the open interest was not closed out during the roll period and was carried over into the delivery period.

Wildcard Option Value

Last quarter, we asked, “Will this quarter mark the complete collapse of CGB wildcard participation?” and the answer was apparently, “Yes”. We expect this to continue into the next quarter as smaller hedge tails and positive carry for long basis positions eliminate wildcard exercise opportunities for the next few quarters.

Even the CGBZ25 wildcard option is worthless this quarter, which is surprising since it usually is worth at least something. We find, via a simulation model calibrated using recent afternoon volatility in bond prices, that the option is worth almost nothing. The issue with the pricing model is that there have been only three observations of price increases in the 10-year point of the curve that would warrant a wildcard exercise in the last 181 days. For the wildcard option to have any value, the price increase must exceed the remaining positive carry plus the remaining value of the option – conditions that are seldom met given the current calibration for the model.

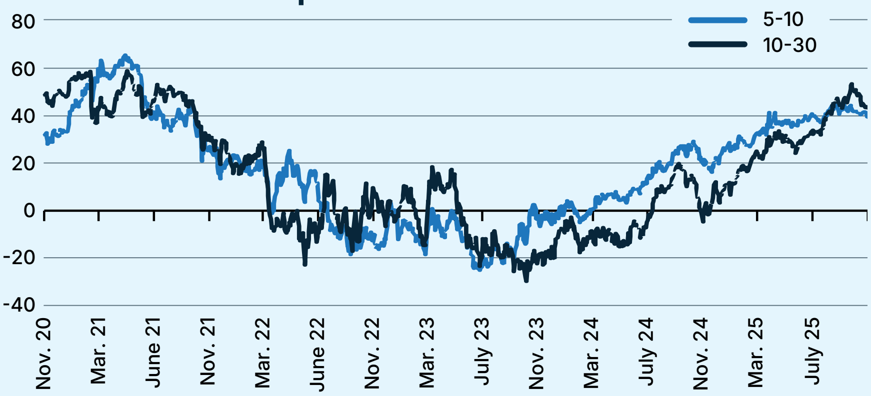
Although we calculate the value of all the wildcard options to be insignificantly different from zero, participation will probably still take place. Dealing desks often end up long the option (long basis) in their normal daily trading activity and, given the chance and negligible cost of taking the position into the delivery period, may as well bet on one of those few delivery days being a high volatility afternoon for bond prices. However, we don’t expect participation to be anything like some of the previous quarters we have observed since 2022 in the CGB and other contracts.

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 several months ago[2].
- The yield curve remains steep, particularly between the 5-year and 10-year points. This is not a phenomenon confined to Canada and we plan to investigate whether it is an attractive opportunity soon. For now, we point out that the 5-10 slope remains near recent highs, as shown in Figure 12.

FIGURE 12

Constant Maturity Canada Bond Yields, 5-10 and 10-30 Slope



Source: Author Calculations

- Recent spending announcements by the federal government mean more bond issuance. One trade that has almost always been attractive is the auction play in nearly every point of issuance on the Canada yield curve. Given the short-term nature of the trade, participants often use the futures market to hedge their exposure and reduce funding friction. This trade opportunity will become more exploitable as federal bond issuance picks up in the coming months.

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

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