The Yield Curve

Desjardins
Economic Studies
www.desjardins.com/economics

July 25, 2008

The Federal Reserve and Treasury rescue U.S. mortgage mainstays

Highlights

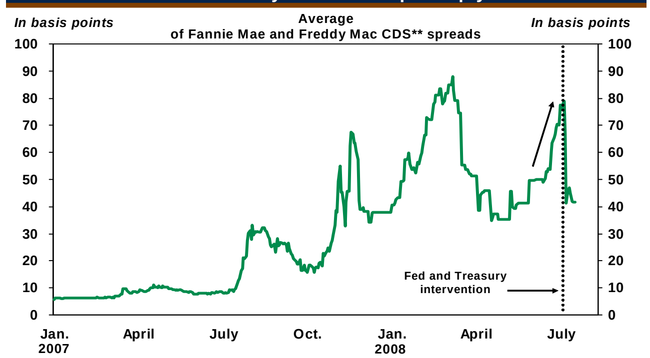
- Too big to fail: Washington mounts an emergency plan to bail out the U.S. mortgage mainstays.
- High inflation is a concern, but the Federal Reserve cannot afford to raise its key rates until the housing market has really stabilized.
- Together, weak growth and inflation will encourage the Bank of Canada to be cautious. Monetary stability is in view.
- In the short term, the European Central Bank will stay focused on inflation: it is still too early to hope for a change in stance.
- Inflation is keeping the Bank of England's hands tied, but the soft economy should allow it to lower its rates in late fall.

Contents

Summary

The financial markets are still fragile. Already torn between the impact of high oil prices on inflation and the risks of an economic slowdown, the chances that the U.S. financial system will collapse came back to haunt international investors. After mortgage lender IndyMac Inc. went bankrupt, rumours that U.S. housing market heavyweights Fannie Mae and Freddy Mac were undercapitalized hit the financial markets like a cold shower (graph 1).

Graph 1 – Fears of undercapitalization pushed the indexes of default by the GSEs* up sharply



* Government Sponsored Enteprises; ** Credit Default Swap.
Sources: Bloomberg and Desjardins, Economic Studies

TOO BIG TO FAIL

It should be said that, with close to 50% of a US$10.6 trillion market (in holdings and guarantees), the domino effect of the bankruptcy of either of the two GSEs (Government Sponsored Enterprises) would have been catastrophic. To avoid lethargy, the government had no choice but to set up yet another bailout plan (see box on page 3 for more details). The Federal Reserve (Fed) gave the GSEs unlimited access to its discount window and the Treasury announced that it intended to inject capital (it did not specify how much). It is believed that Fannie Mae and Freddy Mac will have to raise about US$25B over the next eighteen months. This amount could be much higher, however, if the housing slump continues.

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Mathieu D'Anjou
Senior Economist

Francis Généreux
Senior Economist

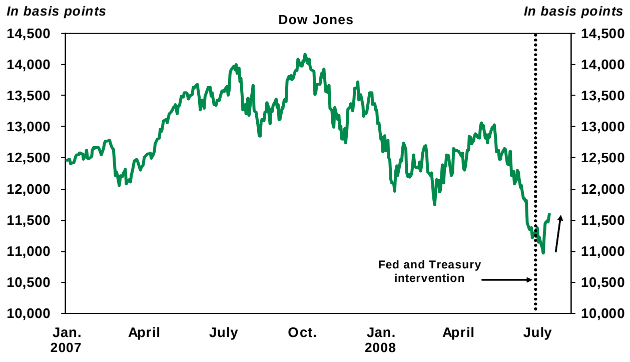
Martin Lefebvre
Senior Economist

Hendrix Vachon
Economist

514-281-2336 *or* 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

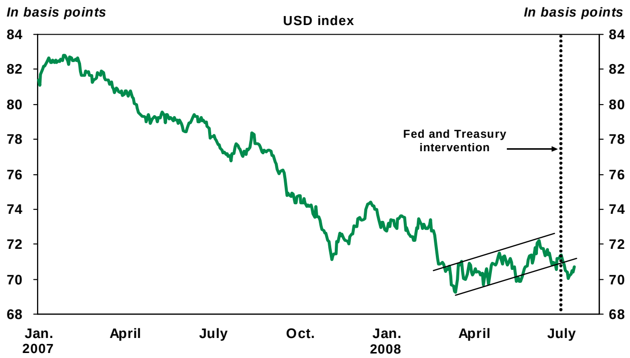
The markets took a positive view of the plan. The stock exchanges rebounded from their new cyclical lows, the greenback returned to its ascending channel, and demand for safe haven securities ebbed, driving rates on Treasury securities up (graphs 2 to 4).

Graph 2 – The stock market responded positively to Washington's action plan



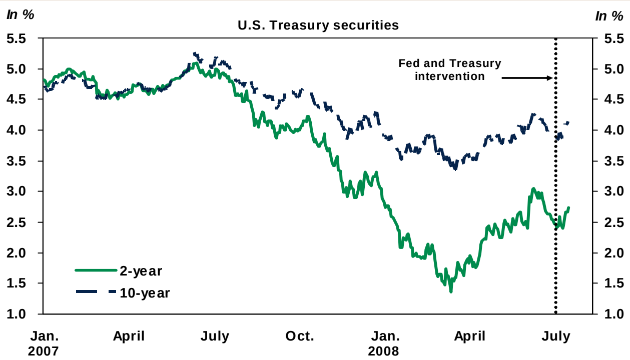
Sources: Bloomberg and Desjardins, Economic Studies

Graph 3 – The U.S. dollar is back on an ascending trajectory



Sources: Bloomberg and Desjardins, Economic Studies

Graph 4 – Bond rates came back up



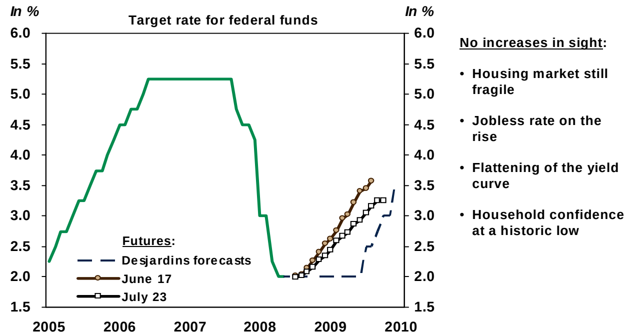
Sources: Bloomberg and Desjardins, Economic Studies

That said, these events quickly brought home the fact that it would take time for the credit crunch to resolve itself. Treasury Secretary Henry Paulson is urging American banks to keep cleaning up their impaired mortgage loans so as to get confidence back as quickly as possible. However, based on the Savings and Loan crisis that saw the bankruptcy of several hundred deposit-taking institutions in the latter half of the 80s, it will take several quarters before the situation returns to normal.[1]

MONETARY STABILITY IS IN VIEW

The markets have downgraded their rate hike expectations (graph 5), but we are maintaining our outlook that the likeliest avenue is a lengthy period of monetary stability. Of course, because of high oil prices, total inflation growth is a concern. The situation is full of uncertainties, however, and a number of indicators are still pointing to a struggling economy. Gas prices are very high, the stock market is volatile, home sales are freefalling, the labour market continues to deteriorate and household confidence is at a historic low.

Graph 5 – The market has downgraded its interest rate hike expectations ... but not enough!



Sources: Federal Reserve and Desjardins, Economic Studies

What's more, while quick action by U.S. government authorities and a drop in oil prices have allowed the stock markets to look up, the bailout plan will do nothing to solve the main cause of the current crisis, which is plummeting home prices. Although U.S. federal funds have come down by 325 basis points since September 2007, the interbank market is still under strain and, in many cases, lending rates are higher than they were a year ago (graphs 6 and 7). This really compromises the stabilization of the American housing market.

Under the circumstances, the markets will further downgrade rate hike expectations. The deflationary impact of the

[1] See *Economic Viewpoint*, "The subprime mortgage credit crisis: should the government intervene (again)?" April 24, 2008.

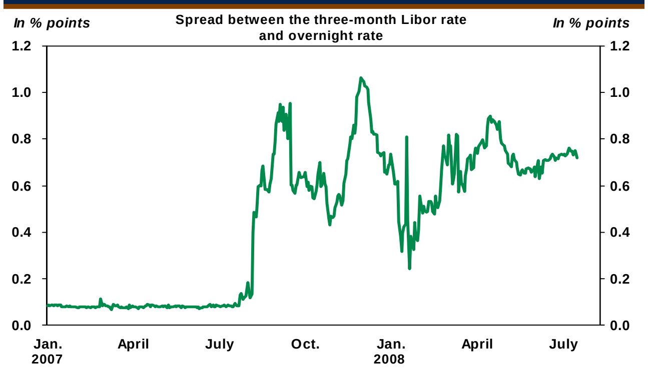
Washington launches a bailout plan

The comprehensive relief bill moved into high gear over the past few days as the financial market crisis erupted again, threatening the stability of Fannie Mae and Freddie Mac. President Bush dropped his longstanding veto threat in a "grand compromise" with Congress.

The main elements of the bill are as follows:

- A long-overdue regulatory overhaul of Fannie Mae and Freddie Mac; the lack of effective oversight has substantially eroded their credibility.
- Permanently raises the conforming loan limits for the GSEs—the previous cap of $425,000 essentially shut the GSEs out of many markets in the country, leading to regional discrimination in the terms and conditions of mortgage credit.
- Funds a major expansion of the FHA's loan insurance program—this is a voluntary program that will promote more liquidity in the mortgage markets and unlock some financial entities from holding depreciated mortgage assets.
- Provides $3.9 billion in aid to state and local governments to rehabilitate foreclosed homes. Tax incentives to support the housing market and first-time homebuyers
- Higher borrowing authorization levels for the Treasury to either lend or purchase equity in the GSEs, to stabilize their financial condition and support their capitalization.

Graph 6 – The monetary market remains under intense strain



Sources: Bloomberg and Desjardins, Economic Studies

Graph 7 – Despite the Fed's aggressive cuts, retail interest rates are still high

Sources: Datastream and Desjardins, Economic Studies

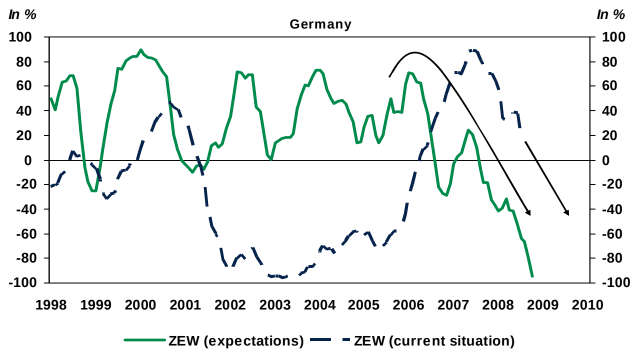
economic slowdown, labour market deterioration and drop in production capacity utilization give the Fed some solid leeway to keep its rates steady. In our opinion, the Fed will have to make sure that the housing market has bottomed out and that most of the damage done by the mortgage credit crisis has cleared the financial system before it begins to firm up its monetary policy. This will easily take us into 2009, perhaps even into the second half of next year.

IN THE SHORT TERM, THE EUROPEAN CENTRAL BANK WILL STAY FOCUSED ON INFLATION

Wage increases and high oil prices prodded the European Central Bank (ECB) to take one more step in its inflation fight. As expected, the ECB raised its key rate by 25 basis points to 4.25% at its July meeting. Any other decision would have been surprising, with June's inflation estimated to be 4%, more than two percentage points over the ECB's target. However, this seems to mark the end of a long monetary firming cycle rather than the onset of a new period of rate hikes. The ECB probably only wanted to show that it was ready to make good on its word.

The next rate move should nonetheless be a cut. Europe's economy is showing more and more signs of softness. The ZEW index's current component is starting to catch up with the component associated with the expectations of Euroland financial market players (graph 8). What's more, the PMI manufacturing indexes are at levels that have previously prodded the ECB to ease its monetary policy.

Graph 8 – The economic slowdown should deepen



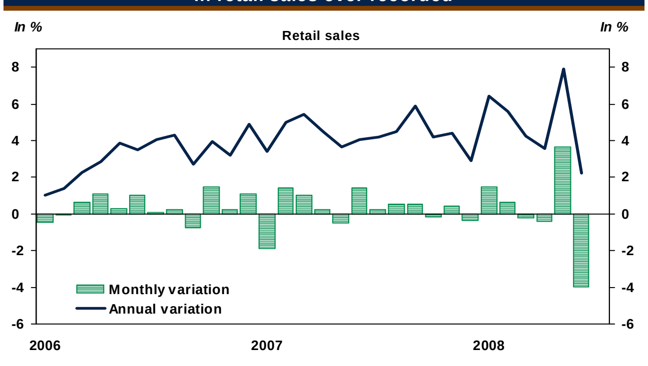
Sources: Datastream and Desjardins, Economic Studies

Caution is in order, for now. Inflation is keeping the ECB from opening the door to rate cuts and it is still too early to hope for a sudden change in tone.

THE BANK OF ENGLAND HAS NO ROOM TO RAISE RATES

Over-target inflation continues to keep the Bank of England's (BoE) hands tied, but the problems in Britain's housing market should encourage the Bank to ease its monetary policy at the end of 2008 or in early 2009. After being surprisingly lively in May, reflecting record temperature, retail sales dropped severly in June (graph 9).

Graph 9 – United Kingdom: biggest one-month drop in retail sales ever recorded



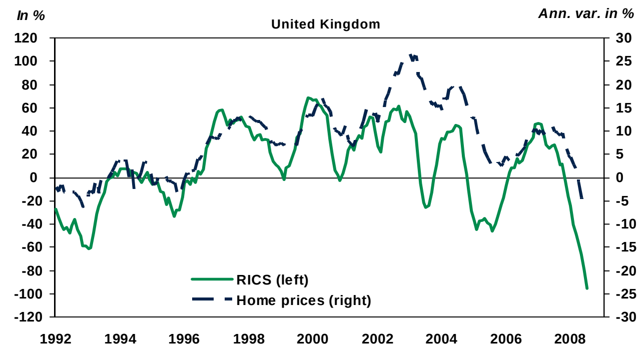
Sources: Datastream and Desjardins, Economic Studies

And while the pace of sales seen in May was clearly not sustainble, nothing is pointing towards an imminent rebound. Home prices were down for an eighth consecutive month in June, taking the negative annual change down to 6.3%, its lowest point since 1992 (graph 10).

THE BANK OF CANADA WILL STAY CAUTIOUS

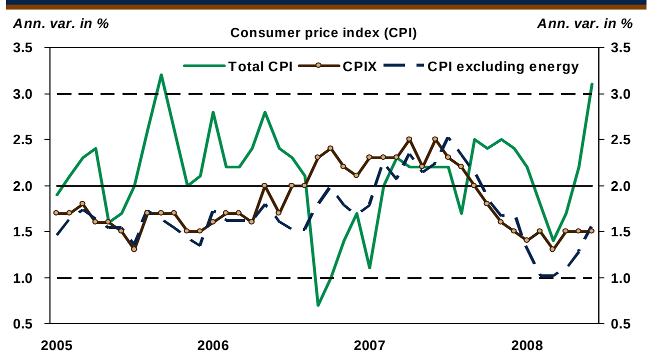
The Bank of Canada (BoC) is no longer immune from the problems associated with stagflation. While the economy is showing clear signs that it is slowing, inflation picked up to 3.1% in June, going above the BoC's target range (graph 11).

Graph 10 – Britain's housing market is starting to collapse



Sources: Royal Institute of Chartered Survey, Nationwide and Desjardins, Economic Studies

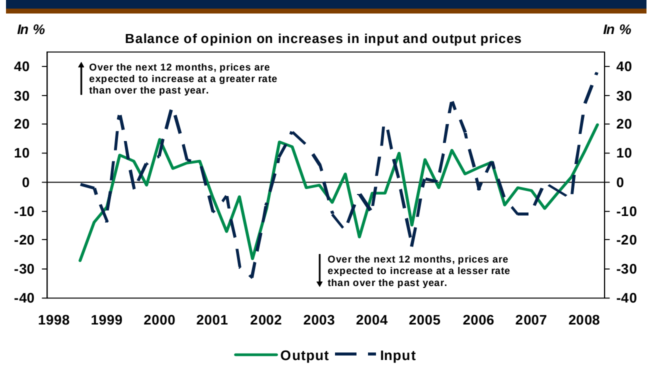
Graph 11 – Inflation pressure accelerates



Sources: Statistics Canada and Desjardins, Economic Studies

Core inflation is still largely contained, for now, at under 2.0%, but the BoC is worried about potential pass-through effects. According to a Bank survey, businesses expect input costs to go up sharply, with output prices seeing a smaller increase. In both cases, the survey's balances of opinion were at record peaks (graph 12).

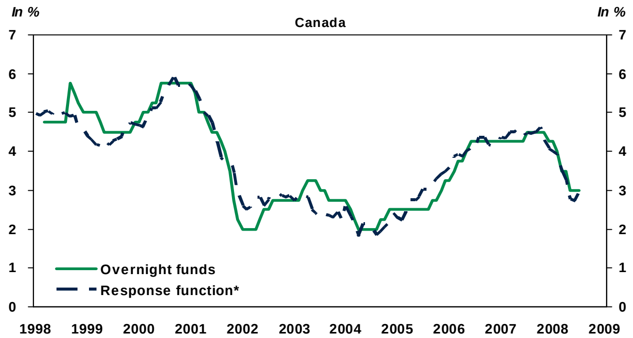
Graph 12 – Businesses expect inflation to pick up speed



Sources: Bank of Canada and Desjardins, Economic Studies

Due to the ongoing economic slowdown, the BoC will remain cautious over the next few months. Our central bank response function shows that rates are at appropriate levels (graph 13). Thus, unless oil prices accelerate again, the likeliest avenue is a lengthy status quo.

Graph 13 – The monetary policy is appropriate



* Based on the financial and economic variables that are likely to influence the Bank of Canada.
Sources: Datastream and Desjardins, Economic Studies

François Dupuis
Vice-President and Chief Economist

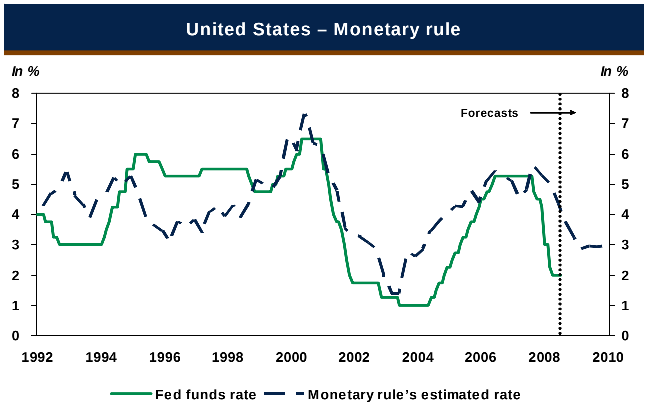
Martin Lefebvre
Senior Economist

FEDERAL RESERVE

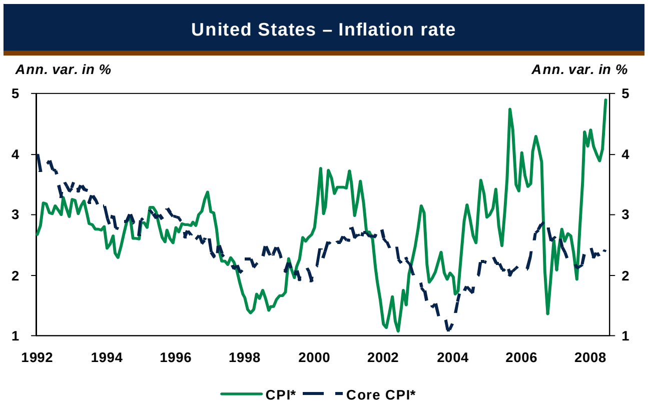
No change before the situation bottoms out

- As forecast, the Federal Reserve (Fed) kept its key rate steady at 2.0% at the end of June. The decision had been 88.4% priced in by the forward market and forecast by all 102 analysts and economists in Bloomberg's consensus. However, the tone of the statement is now a little more hawkish, with inflation risks taking precedence over the economy's deterioration.
- In our opinion, the tougher stance does not leave room to hope for key rate increases in the near future. Unless energy prices continue to rise at this pace, it is hard to picture a move to start firming monetary policy before 2009. Because of tightened credit conditions, the 325 basis points of key rate cuts ordered since September 2007 have not yet been fully felt on retail sales.
- Nevertheless, the Fed will be worrying about inflation risks for some time to come. The increase in gas prices is still a concern and the Fed's focus is on the unanchoring of inflation expectations. The annual 5.0% change in the consumer price index (CPI) is the biggest it has been since February of 1991. Moreover, a monthly change of more than 1.0% had not been since Hurricane Katrina hit in September 2005. The main cause of the surge in prices is, of course, rising energy costs. Gas prices went up 10.1% in June, while heating oil went up 8.5%. We are seeing the indirect effects of these increases in the price of public transportation: it is up a monthly 3.4%, the biggest monthly increase since the fall of 1999.
- However, the economic impacts of the increase in gas prices, drop in consumer confidence, precarious housing market, downturn in the labour market, financial market instability and increase in excess production capacity mean that the situation is not conducive to an increase in the cost of money any time soon. Moreover, the big jump in prices continues to eat into workers' average weekly wages, which fell 0.9% in June when adjusted for inflation. June's CPI results also further sap the weak retail sales growth that month. In real terms, that means personal consumption could be soft despite the tax rebate contribution.

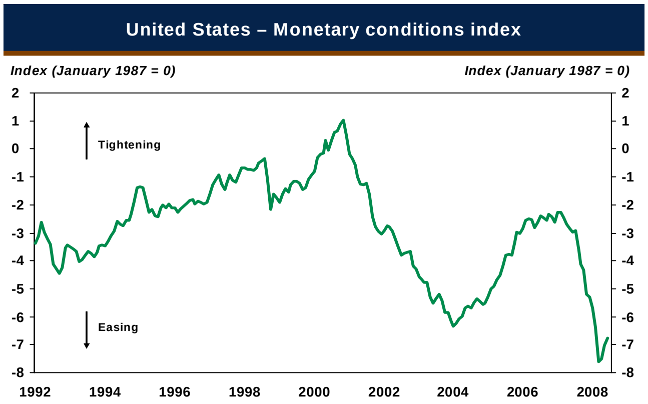
Forecasts: It is hard for the Fed to maintain a balance between the threat of inflation and the precarious economy. In the short term, however, this is not the right time for key rates to move up. The Fed will instead try to calm the situation down using rhetoric with bite. They are more likely to use words than deeds. Key rates should therefore be steady for the rest of the year.



Sources: Datastream and Desjardins, Economic Studies



* Consumer Price Index.
Sources: Datastream and Desjardins, Economic Studies



Sources: Datastream and Desjardins, Economic Studies

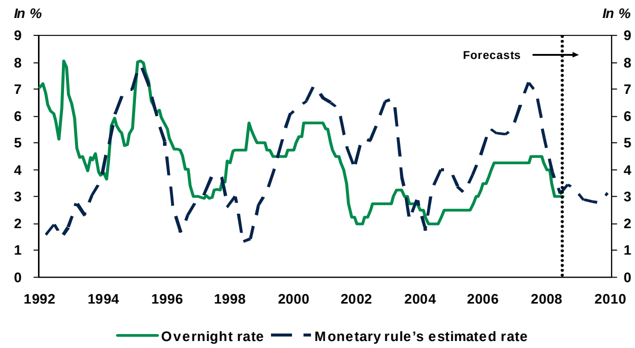
BANK OF CANADA

Together, weak growth and inflation will urge caution

- No one was surprised when the Bank of Canada (BoC) kept its key rate at 3.0% in July, as all 28 of the forecasters in the consensus expected. The surge in energy prices is a worry, but underlying inflation is contained for now, and there are abundant downside risks to economic growth. The latest turn of events, with another wave of pessimism about the banking sector, shows that the credit crisis is far from over and the monetary status quo could hold for some months to come.
- Of course, due to persistent high oil prices, the BoC has upgraded its outlook for total inflation, potentially to more than one point over the top of its target range. In June, the annual change in the all-items consumer price index came in above the top of the Bank of Canada's target range (3%). This acceleration by total inflation is of course owing to rapidly surging prices for gas and other sources of energy. The annual change in energy components totals 18.0%, the highest it has been since hurricanes Katrina and Rita struck in September of 2005.
- Although we forecast oil prices to keep correcting, upward pressure from energy will still be with us for the next few months. We can therefore expect All-items inflation to stay above the 3% ceiling until early 2009. However, these effects should prove to be temporary, as stabilizing oil prices will quickly bring inflation into line with the core index. We estimate the Canadian economy's current softness will allow core inflation to remain in the lower part of the BoC's target range until 2009.
- Already, the first-quarter contraction in economic activity (-0.3%) led to slightly excess supply, and there is nothing to show that economic growth bounced back to any extent this spring. The domestic economy is still sound, but the labour market is cresting and inflation's acceleration is having a negative impact on households' real wage growth and consumer spending. In addition, Canada's foreign trade sector is still vulnerable to the U.S. economic slowdown and strong loonie.

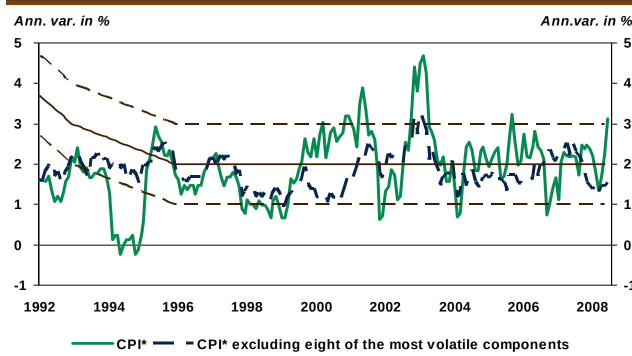
Forecasts: The BoC seems to be saying that it is comfortable with total inflation's temporary acceleration over its upper target (3%). Unless oil prices record a sustained increase over the next few months, therefore, it is unlikely that the Bank will seek to change its monetary policy. The most likely avenue is an extended status quo.

Canada – Monetary rule



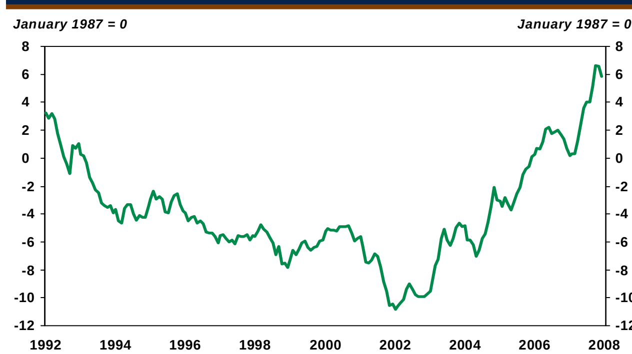
Sources: Datastream and Desjardins, Economic Studies

Canada – Inflation rate



* Consumer Price Index.
Sources: Datastream and Desjardins, Economic Studies

Canada – Monetary conditions index



Sources: Bank of Canada and Desjardins, Economic Studies

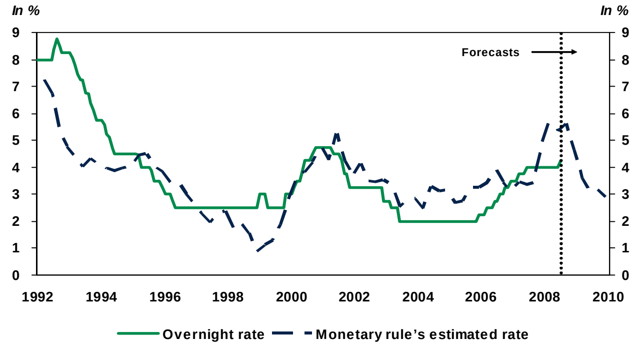
EUROPEAN CENTRAL BANK

No decrease until inflation slows

- Wage increases and high oil prices prodded the European Central Bank (ECB) to take one more step in its inflation fight. As expected, the ECB raised its key rate by 25 basis points to 4.25% at its July meeting. Anything else would have been a surprise as, in June, President Jean-Claude Trichet had announced that a rate hike was very likely in July. With inflation estimated to be 4% in June, two percentage points above the ECB's target, the Bank was certainly not going to waste the opportunity to bolster its credibility as a defender of price stability.
- However, this seems to mark the end of a long monetary firming cycle rather than the onset of a new period of rate hikes. The 25 basis point hike ordered in July will not have much impact on total inflation, which stems mainly from the increase in energy prices, which are set by world markets. However, because of persisting elevated oil prices, the deterioration in the inflation outlook and surge in inflation expectations, the ECB is concerned about the second-round effects associated with wage and price setting.
- July's increase should not be one of a series of interest rate increases. According to the ECB, interest rates are at appropriate levels and, in a way, the fact that the words "heightened alertness" have been dropped from the statement indicates that the ECB would like to keep its rates steady.
- In the longer term, however, we still expect rate cuts. Europe's economy is showing more and more signs of softness. Already, the PMI manufacturing and services indexes are below the 50 mark, signalling a contraction by economic activity in these sectors. Following the positive effects of good weather on construction in the first quarter, we can expect a backlash impact on real GDP growth in Q2 of 2008.

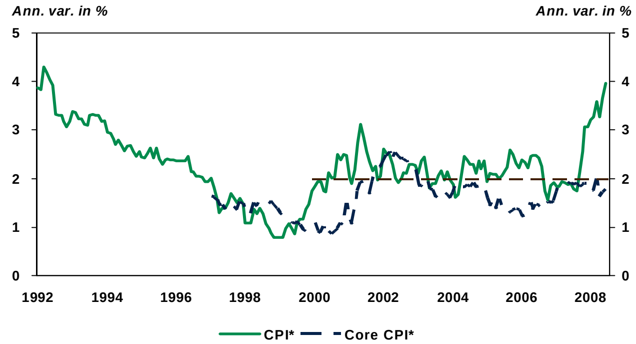
Forecasts: The economic situation in PIGS (Portugal, Italy, Greece and Spain) is already fragile, and higher rates would only increase the likelihood of a generalized euro zone slowdown. That said, although oil prices are expected to correct, high inflation should keep the ECB from beginning a monetary easing cycle before 2009.

Euro zone – Monetary rule



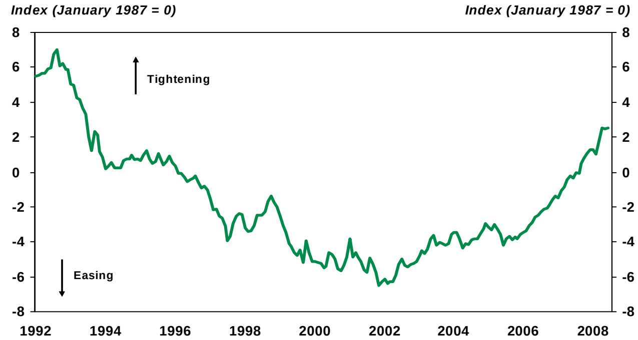
Sources: Datastream and Desjardins, Economic Studies

Euro zone – Inflation rate



* Consumer Price Index.
Sources: Datastream and Desjardins, Economic Studies

Euro zone – Monetary conditions index



Sources: Datastream and Desjardins, Economic Studies

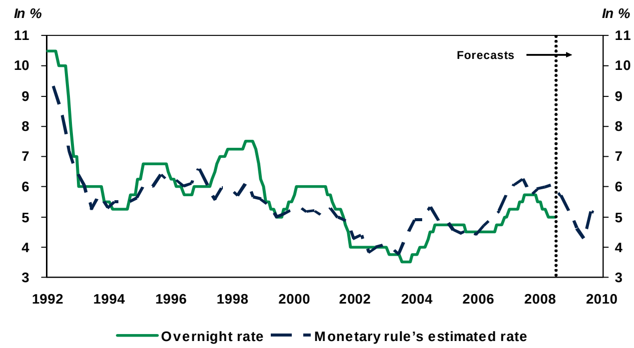
BANK OF ENGLAND

The Bank remains hawkish, but no rate hikes on the horizon

- To no one's surprise, the Bank of England (BoE) kept its key rate at 5.00% in July. The combined risks of inflation and an economic slowdown have robbed the Bank of any leeway in the short term.
- On one hand, the BoE remains concerned about inflation. In June, the consumer price index's annual change totalled 3.8%, beating the BoE's target by over two percentage points. Britain's monetary authorities are expecting to see a bigger, more persistent increase in inflation, which could go to 4.0% by the end of this year.
- On the other hand, there are mounting signs of a slowdown in the United Kingdom. Note that the housing market, which is very sensitive to interest rate movements, is in bad shape. The Royal Institute of Chartered Surveyors survey edged up in June, but over 92% of the real estate agents surveyed are still expecting the market to correct. Home prices recorded an eighth straight monthly decline in June, and the annual change is at its lowest level since the 1992 recession.
- Britain's households have held up in May, but the spectacular rebound in retail sales (3.5% m/m), clearly, was not sustainable. The backlash effect was brutal, with retail sales tumbling by 3.9% in June, the worst performance on record.
- Moreover, the production indicators are signalling that a slowdown is underway. Industrial production tumbled 0.8% in May, taking the annual change to -1.6%. The PMI manufacturing (45.8) and services (47.1) indexes fell more sharply than expected in June, and now show that economic activity is contracting in these sectors.

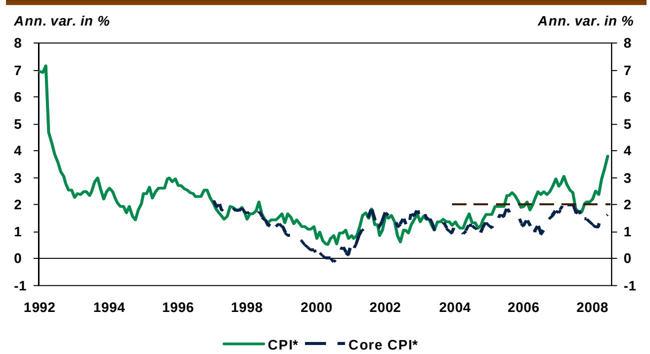
Forecasts: The BoE is well aware of the problems with the British economy, but it will have to put rate cuts on hold for several months to protect its credibility and keep a damper on inflation expectations. The magnitude of the economic slowdown should convince it to return to monetary easing as of the fall, however.

United Kingdom – Monetary rule



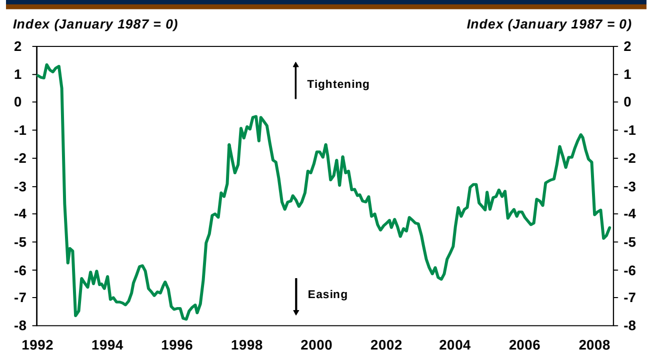
Sources: Datastream and Desjardins, Economic Studies

United Kingdom – Inflation rate



* Consumer Price Index.
Sources: Datastream and Desjardins, Economic Studies

United Kingdom – Monetary conditions index



Sources: Datastream and Desjardins, Economic Studies

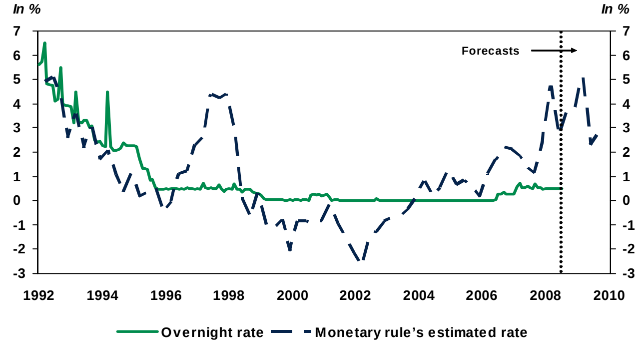
BANK OF JAPAN

The risks of an economic slowdown move the BoJ to prudence

- Although inflation is up, the Bank of Japan (BoJ) opted to keep its key rate steady at 0.50% at its last monetary policy meeting on July 14. Given the growing risk that Japan's economy will teeter, the BoJ should stay on the sidelines for some time yet before it moves ahead with rate hikes.
- Japanese inflation has been going up steadily since Q4 of 2007. Only April's data contradicted this tendency: a gas tax expired, which was then reinstated in May. The BoJ's core inflation index, which excludes the effect of fresh food, is sending the same signal. At 1.5% in May, core inflation even beat All-items inflation, which was 1.3%. However, when we exclude both fresh food and energy, Japanese inflation is still very low, at X% in June. Cost inflation is not the ideal scenario, and it would only take a tumble in oil prices to turn the situation around.
- The risks that Japan's economy will wobble are becoming more and more dominant. Last week, BoJ Governor Shirakawa stated: "We don't have any pre-set direction for policy and must carefully examine both upside and downside risks […] If asked about a numerical weight allocation, I would say that it is fifty-fifty growth to inflation." The consensus forecasts lean in the direction of a 0.3 % contraction in real GDP in Q2. The Tankan index has fallen substantially, which usually signals weakness in capital investment. Small business confidence also hit an almost six-year low in June. Rising energy and commodity prices are also hurting Japanese industry. Consumers do not seem to be out of the woods, either, with drops being recorded in household spending. Only foreign trade seems like it could really generate growth. To date, the drop in U.S. demand has been offset by the Asian, European and Middle Eastern markets. A global slowdown would be fatal for Japan's economy.
- The monetary conditions index eased again on the yen's weakness; the yen's value is increasingly representative of the state of Japan's economy. There is still a gap between these levels and the levels posted in 2006 and 2007, when the BoJ let itself firm up its monetary policy.

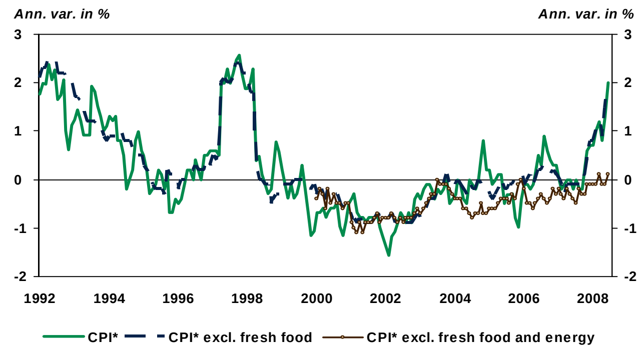
Forecasts: Inflation risks, on one hand, and the risks of an economic slowdown, on the other, are encouraging the BoJ to be cautious. The status quo should last through the end of 2008.

Japan – Monetary rule



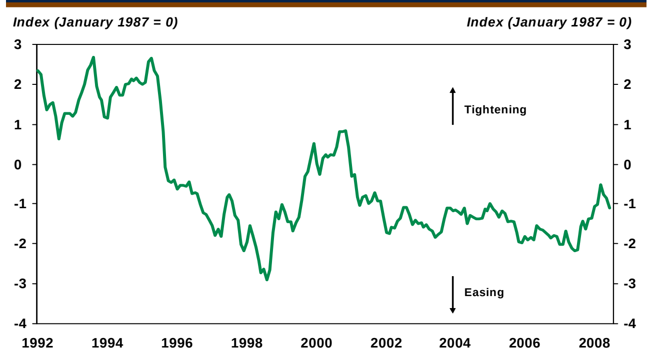
Sources: Datastream and Desjardins, Economic Studies

Japan – Inflation rate



* Consumer Price Index.
Sources: Datastream and Desjardins, Economic Studies

Japan – Monetary conditions index



Sources: Datastream and Desjardins, Economic Studies

Table 1
Key interest rates

End of period in %	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3f	2008 Q4f	2009 Q1f	2009 Q2f	2009 Q3f	2009 Q4f
United States												
Federal funds	5.25	5.25	4.75	4.25	2.25	2.00	2.00	2.00	2.00	2.00	2.75	3.50
Canada												
Overnight funds	4.25	4.25	4.50	4.25	3.50	3.00	3.00	3.00	3.00	3.25	3.50	4.00
Euro zone												
Refinancing rate	3.75	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.00	4.00	3.75	3.75
United Kingdom												
Base rate	5.25	5.50	5.75	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50	4.50
Japan												
Overnight funds	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

Table 2
Schedule and key rates

Date	Central Bank	Decision	Rate
May 2008			
6	Reserve Bank of Australia	s.q.	7.25
8	Bank of England	s.q.	5.00
8	European Central Bank	s.q.	4.00
16	Bank of Mexico	s.q.	7.50
19	Bank of Japan	s.q.	0.50
28	Bank of Norway	s.q.	5.50
June 2008			
3	Reserve Bank of Australia	s.q.	7.25
4	Reserve Bank of New Zealand	s.q.	8.25
4	Bank of Brazil	+50 b.p.	12.25
5	Bank of England	s.q.	5.00
5	European Central Bank	s.q.	4.00
10	Bank of Canada	s.q.	3.00
12	Bank of Japan	s.q.	0.50
19	Swiss National Bank	s.q.	2.75
20	Bank of Mexico	+25 b.p.	7.75
25	Bank of Norway	+25 b.p.	5.75
25	Federal Reserve	s.q.	2.00
July 2008			
1	Reserve Bank of Australia	s.q.	7.25
3	European Central Bank	+25 b.p.	4.25
3	Bank of Sweden	+25 b.p.	4.50
10	Bank of England	s.q.	5.00
15	Bank of Canada	s.q.	3.00
15	Bank of Japan	s.q.	0.50
18	Bank of Mexico	+25 b.p.	8.00
23	Reserve Bank of New Zealand	-25 b.p.	8.00
23	Bank of Brazil	+75 b.p.	13.00

s.q.: status quo; b.p. : basis points
Source: Desjardins, Economic Studies

Table 3
Coming soon

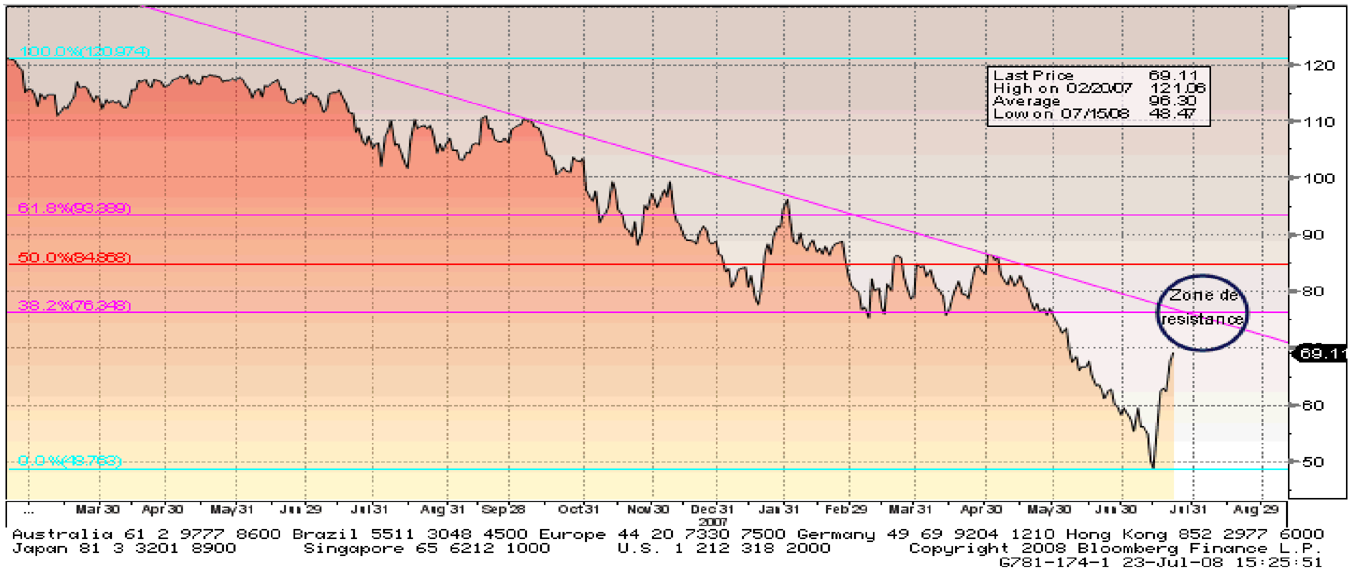
Date	Central Bank
August 2008	
5	Reserve Bank of Australia
5	Federal Reserve
7	Bank of England
13	Bank of Norway
15	Bank of Mexico
18	Bank of Japan
September 2008	
2	Reserve Bank of Australia
3	Bank of Canada
4	Bank of England
4	European Central Bank
4	Bank of Sweden
10	Reserve Bank of New Zealand
10	Bank of Brazil
16	Bank of Japan
16	Federal Reserve
18	Swiss National Bank
19	Bank of Mexico
24	Bank of Norway
October 2008	
2	European Central Bank
6	Bank of Japan
7	Reserve Bank of Australia
9	Bank of England
17	Bank of Mexico
21	Bank of Canada
22	Reserve Bank of New Zealand
23	Bank of Sweden
29	Bank of Norway

Source: Desjardins, Economic Studies

TECHNICAL ANALYSIS

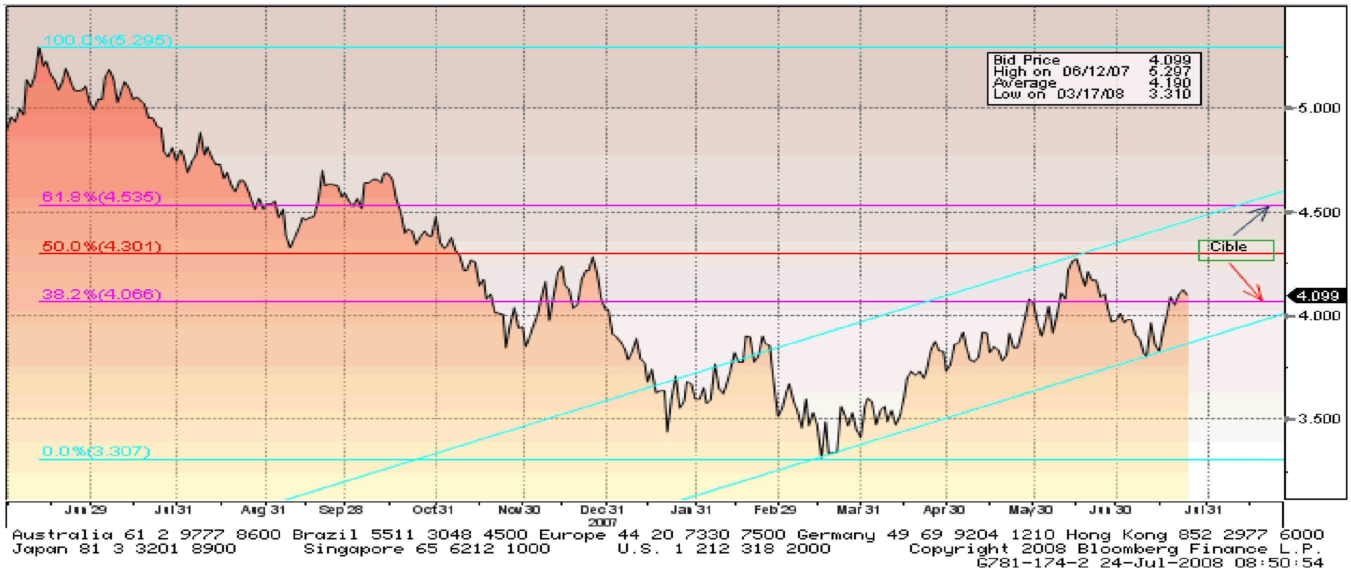
BKX INDEX

The credit crisis has pummelled the American banking sector. However, the BKX (index of the major U.S. banks) seems to have touched bottom in mid-July, 2008, and should head back toward its first resistance level, very close to 75.



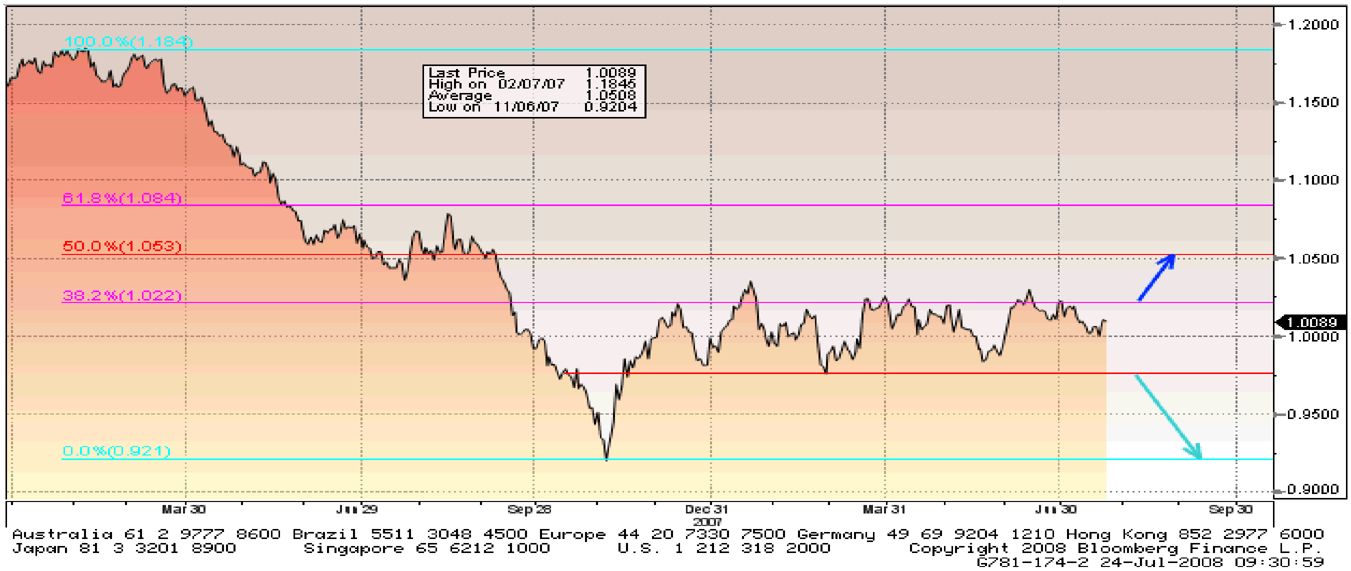
10-YEAR U.S. BOND RATES

10-year U.S. bond rates recently broke above the first resistance level near 4.07%. The target is 4.30%, representing 50% of the movement by rates over the last year. A break above this point could take us into the upper part of the channel, close to 4.55%.



CAD

Canada's dollar has been in an oscillating channel between 0.975 and 1.025 since mid-November 2007. As the consolidation period is ongoing, a break out of the range could make the movement accelerate substantially.



OIL

The price of oil broke the up trend that started last February. The $110 and $123 levels could act as a consolidation zone.

Simon Senécal
Caisse centrale Desjardins

Table 4
United States: Fixed income market

End of period in %	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3f	2008 Q4f	2009 Q1f	2009 Q2f	2009 Q3f	2009 Q4f
Key rate												
Federal funds	5.25	5.25	4.75	4.25	2.25	2.00	2.00	2.00	2.00	2.00	2.75	3.50
Treasury bills												
3-month	5.04	4.82	3.82	3.36	1.38	1.90	1.90	2.00	2.05	2.15	2.90	3.60
Federal bonds												
2-year	4.58	4.87	3.96	3.07	1.62	2.61	2.60	2.30	2.60	3.30	3.80	4.20
5-year	4.54	4.93	4.23	3.46	2.47	3.33	3.45	3.20	3.50	3.80	4.10	4.60
10-year	4.65	5.03	4.58	4.03	3.43	3.98	4.00	3.90	4.10	4.20	4.40	4.70
30-year	4.85	5.13	4.83	4.45	4.30	4.53	4.70	4.65	4.60	4.70	4.80	4.90
Yield curve												
5-year - 3-month	-0.50	0.11	0.41	0.10	1.09	1.43	1.55	1.20	1.45	1.65	1.20	1.00
10-year - 2-year	0.07	0.16	0.62	0.96	1.81	1.36	1.40	1.60	1.50	0.90	0.60	0.50
30-year - 3-month	-0.19	0.31	1.01	1.09	2.92	2.63	2.80	2.65	2.55	2.55	1.90	1.30

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

Table 5
Canada: Fixed income market

End of period in %	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3f	2008 Q4f	2009 Q1f	2009 Q2f	2009 Q3f	2009 Q4f
Key rate												
Overnight funds	4.25	4.25	4.50	4.25	3.50	3.00	3.00	3.00	3.00	3.25	3.50	4.00
Treasury bills												
3-month	4.18	4.43	3.98	3.83	1.88	2.50	2.75	2.80	3.10	3.55	3.75	4.15
Federal bonds												
2-year	3.98	4.58	4.08	3.74	2.63	3.25	3.20	3.05	3.30	3.70	4.00	4.35
5-year	4.01	4.56	4.21	3.87	2.91	3.46	3.45	3.20	3.60	3.90	4.30	4.60
10-year	4.11	4.55	4.34	3.99	3.43	3.74	3.80	3.75	4.05	4.15	4.40	4.70
30-year	4.20	4.49	4.45	4.10	3.94	4.08	4.15	4.20	4.40	4.55	4.65	4.80
Yield curve												
5-year - 3-month	-0.17	0.13	0.23	0.04	1.03	0.96	0.70	0.40	0.50	0.35	0.55	0.45
10-year - 2-year	0.13	-0.03	0.26	0.25	0.80	0.49	0.60	0.70	0.75	0.45	0.40	0.35
30-year - 3-month	0.02	0.06	0.47	0.27	2.06	1.58	1.40	1.40	1.30	1.00	0.90	0.65
Spreads (Canada - U.S.)												
3-month	-0.86	-0.39	0.16	0.47	0.50	0.60	0.85	0.80	1.05	1.40	0.85	0.55
2-year	-0.60	-0.29	0.12	0.67	1.01	0.63	0.60	0.75	0.70	0.40	0.20	0.15
5-year	-0.53	-0.37	-0.02	0.41	0.44	0.13	0.00	0.00	0.10	0.10	0.20	0.00
10-year	-0.54	-0.48	-0.24	-0.04	0.00	-0.24	-0.20	-0.15	-0.05	-0.05	0.00	0.00
30-year	-0.65	-0.64	-0.38	-0.35	-0.36	-0.45	-0.55	-0.45	-0.20	-0.15	-0.15	-0.10

f: forecasts
Sources: Datastream and Desjardins, Economic Studies