The Yield Curve

Desjardins Economic Studies
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Could bond vigilantes derail the economic recovery?

Highlights

- Things in the U.S. bond market are going from bad to worse. The hope of an economic recovery, added to fears linked to increasing bond supply and a potential U.S. credit downgrade, pushed bond yields to increase sharply in the last few weeks.
- **Federal reserve** : The recent increase in bond rates is limiting the benefits of narrowing credit spreads. The Fed may have to accelerate and expand its purchases of government securities to get bond rates and retail rates to levels that will be more conducive to the economy's recovery.
- **Bank of Canada** : As traditional monetary policy has reached a floor at 0.25%, the door is now open to quantitative easing. The risk that inflation will move substantially below the 2% target over the next few quarters signals that the BoC's work may not be over. However, in light of the recent signs of economic improvement, the BoC will likely prefer to weigh in its policies already in place.

Contents

Summary

Things in the U.S. bond market are going from bad to worse. The financial markets' recent improvement, triggered by bellwethers showing that the worst of the crisis is now behind us, re-awoke investors' risk appetite, driving rates on ten-year Treasury bonds up sharply since mid-March.

The movement was magnified last week by factors specific to the bond market. First, the United Kingdom's AAA sovereign credit rating was downgraded (from "stable" to "negative"), which quickly fanned rumours of a potential downgrade to U.S. debt credit rating. Later, the Federal Reserve (Fed) bought up a smaller portion of American debt securities than the markets had expected. These developments, in anticipation of the Treasury Department's growing financing needs (issues totalled US$162B this week), hit longer-term rates like a cold shower.

Ten-year rates jumped by almost 30 basis points, to 3.45%, in just two days (graph 1), before taking on another 30 basis points, to 3.75%, after the better-than-expected consumer confidence report and fears regarding bond supply. That was enough to drive the spread between ten- and two-year terms to 275 basis points, the highest it has been in over six years.

Once again, the markets' reaction seems to be overdone. First, although there is a possibility that the United States' credit rating will be lowered, this will probably not happen for several years. The 2009 deficit promises to be astronomical but, as a percentage of GDP, it is still sustainable and better, relatively speaking, than the debts of the many major industrialized countries (graph 2).

Moreover, as the greenback is the reserve currency, the repercussions of lowering its credit rating would extend well beyond America's borders. Treasury is taking the potential repercussions seriously and Secretary Geithner was prompt

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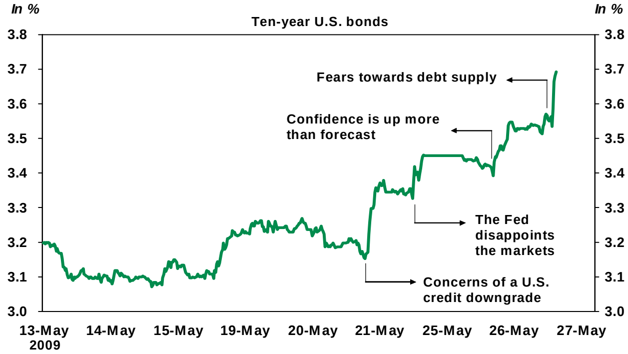
Graph 1 – The rise in bond yields is exagerated



Sources: Datastream and Desjardins, Economic Studies

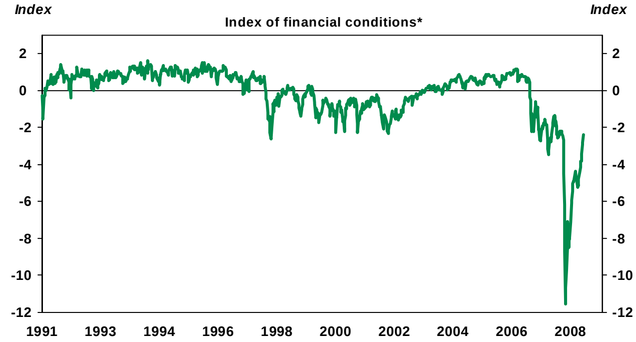
Graph 2 – American public finances have deteriorated less, relatively speaking, than United Kingdom's

Gross debt as a % of nominal GDP

	2008	2010
Canada	62.7	75.4
United States	71.9	100.0
Japan	172.1	197.3
Germany	64.8	80.4
United Kingdom	54.1	90.5
France	72.2	88.0
Italy	113.1	127.2

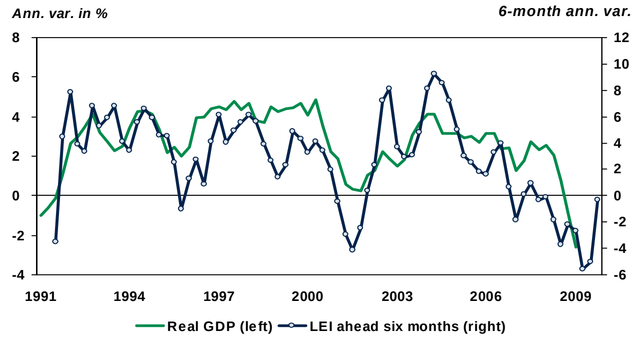
Note: March 2009 data. Debt for all tiers of government.
Sources: OECD and Desjardins, Economic Studies

Graph 3 – Financial conditions are still improving substantially



* Based on interest rate spreads, the money market, the stock market, normalized to 0.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 4 – The leading indicator signals that the deterioration is over



Sources: Conference Board and Desjardins, Economic Studies

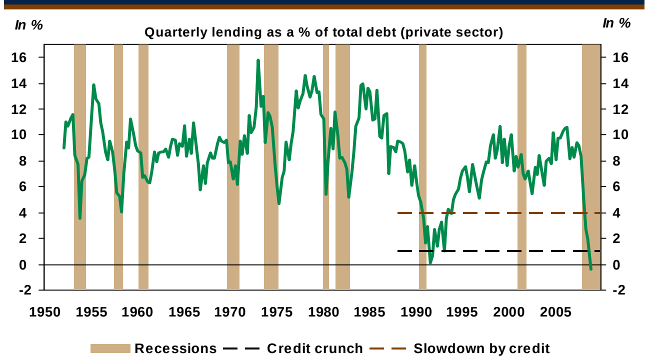
in stating that the necessary efforts would be made to get the public deficit back to 3% of GDP or less.

These developments also occurred at a time when we learned that U.S. monetary authorities had discussed the possibility of expanding their quantitative policy at the end of April. Clearly, the noteworthy improvement in financial conditions (graph 3) and slower deterioration in economic activity will prompt the Fed to be prudent in maintaining its current commitments, but a sudden, rapid increase in rates on government bonds would be a substantial concern for Fed members.

In the meantime, we cannot deny that the economic situation has improved. This view was bolstered by a monthly 1% increase in the leading indicator in April, the fastest growth since June of 2005. However, this does not necessarily mean that the recession's end is imminent (graph 4) and we are still calling for a sub-par recovery.

In a context of high indebtedness and tightening credit standards, the latest statistics show that U.S. households have opted to pay off their loans rather than incur further debt. The result is that the commercial banks are grappling with a credit crunch of impressive magnitude, which is not compatible with a rapid recovery by consumer spending (graph 5).

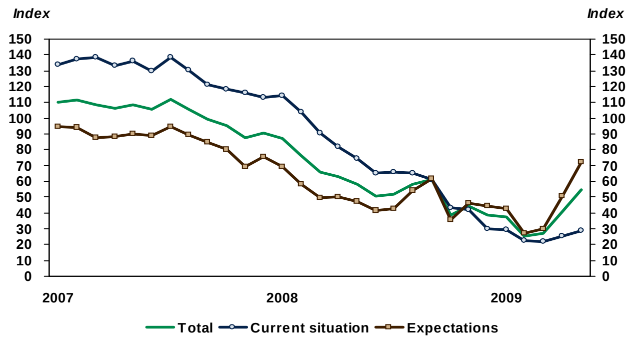
Graph 5 – Credit problems have hampered lending substantially



Sources: Federal Reserve Board, International Monetary Fund and Desjardins, Economic Studies

Of course, consumer confidence is rising in tandem with the improving stock markets (graph 6). However, the job market is still deteriorating, a thorn in consumers' sides. After

Graph 6 – The jump by the Conference Board index primarily stems from consumer expectations

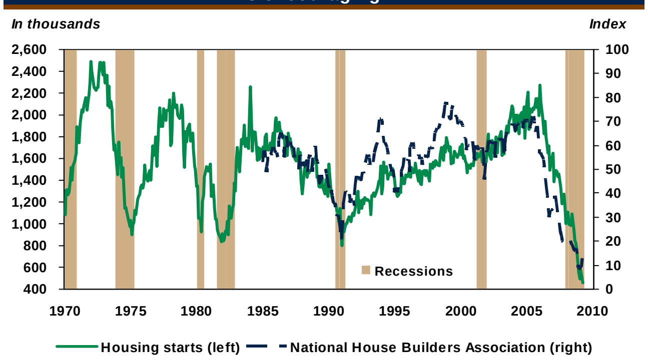


Sources: Conference Board and Desjardins, Economic Studies

rebounding in January and February, retail sales started down again in March and April, suggesting that consumer spending will pull back in the second quarter.

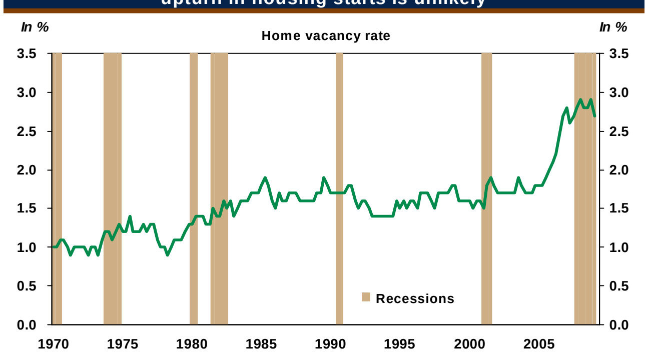
Moreover, the improvement in U.S. homebuilder sentiment is encouraging at a time when starts hit a historic low. However, the vacancy rate is still too high and does not suggest that the situation will turn around quickly (graphs 7 and 8).

Graph 7 – The improvement in builder confidence is encouraging ...



Sources: Datastream and Desjardins, Economic Studies

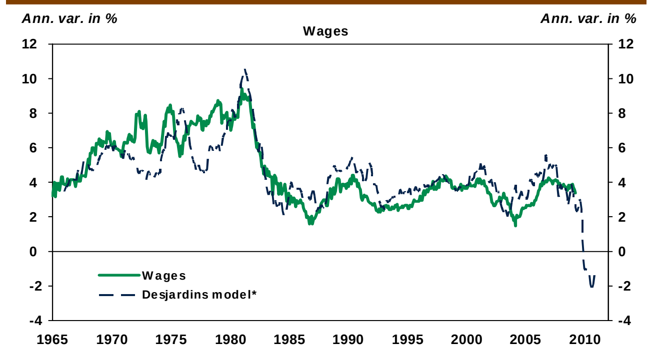
Graph 8 – ... but the record vacancy rate means that a sudden upturn in housing starts is unlikely



Sources: Datastream and Desjardins, Economic Studies

As a result, the Fed will want to keep its policy accommodative for a long time. The "green shoots" have prompted the market to call for a "V" shaped recovery and the potential inflation effects underlying the Fed's quantitative policy. In fact, however, extensive widening of the output gap and the job market's sharp deterioration will broadly contain inflation pressures in the next few years (graph 9).

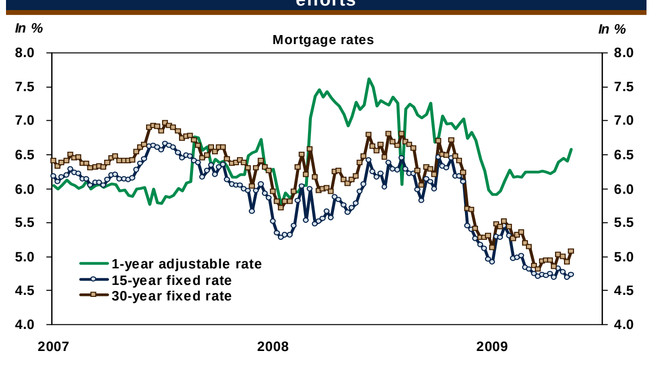
Graph 9 – Wage growth to slow



* Based on the jobless rate and inflation.
Sources: Datastream and Desjardins, Economic Studies

Unless stock prices drop back down, it would be surprising to see ten-year bond rates return to the 2.03% low reached in December of 2008. However, a level of 3.75% does not seem to be realistic. As long as retail rates stay at fairly low levels, the Fed will be able to tolerate somewhat higher bond rates (graph 10). However, there are two important points in favour of a final bond rally. First, due to the deflation that is anticipated, real interest rates are expected to go up in the next few months, a situation that is counter to the Fed's efforts. Also, financing needs and the effect on foreign demand of the risks associated with downgrading the U.S. debt will keep putting upside pressure on nominal rates. As a result, the Fed is very likely to find itself forced to expand its purchasing program by the next FOMC meeting on June 24.

Graph 10 – A surge in retail rates would be counter to the Fed's efforts



Sources: Bloomberg and Desjardins, Economic Studies

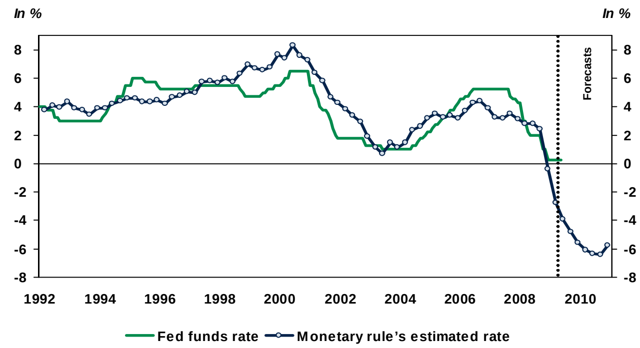
FEDERAL RESERVE

Quantitative policy: Enough-or more?

- Although some signs of improvement are emerging, the economic situation in the United States is still very tough. April's drop in retail sales, housing starts and employment show that the recession, after the 6.1% real GDP contraction in the first quarter, is continuing.
- However, the increases in consumer confidence, in the ISM indexes and in the leading indicator are steps in the right direction, signalling that the pace at which the economy is contracting is slowing. Our economic scenario calls for the real GDP contractions to dwindle over the next few quarters.
- Of course, the drop in economic activity is having a big impact on the evolution of the consumer price index (CPI). For now, the biggest impact on total inflation is coming from the annual variation in energy prices. They were -0.7% in April, with gas prices tumbling 39.5%, according to the CPI. With energy excluded, the CPI's annual change is +2.1%, showing that the current "deflation" stems from a single factor. Inflation should go to a low of about -2.0% this summer.
- Core inflation, which excludes food and energy, is fairly resilient at 1.9% in April. The shakeout in the labour market, drop in demand and mounting unused industrial capacity are expected to increasingly fuel the downside pressures on prices. Core inflation should gradually slow, posting an annual change of 0.5% in mid-2010.
- The Fed is continuing to move ahead with its quantitative policies. Each week, it buys government bonds, and has amassed US$105B of the target US$300B. For other securities, about one third of target purchases of agency securities and mortgage backed securities have been made. The benefits of these policies are already making themselves felt and the financial strains in the markets are slowly easing. However, the recent increase in bond rates is limiting the benefits of narrowing credit spreads. The Fed may have to accelerate and expand its purchases of government securities to get bond rates and retail rates to levels that will be more conducive to the economy's recovery. This option was considered at the last meeting, but monetary policy committee members opted to wait and assess how the economy and markets react to the actions that have already been taken.

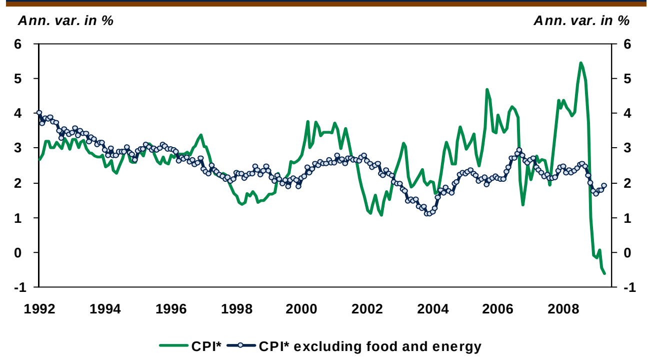
Forecasts: Although the situation is showing some signs of improvement, the economy will continue to contract. As inflation will also remain quite low, the Fed will want to give the recovery a little more support by expanding its quantitative policy. The government's bond purchase program should be enhanced as of the June meeting.

United States – Monetary rule



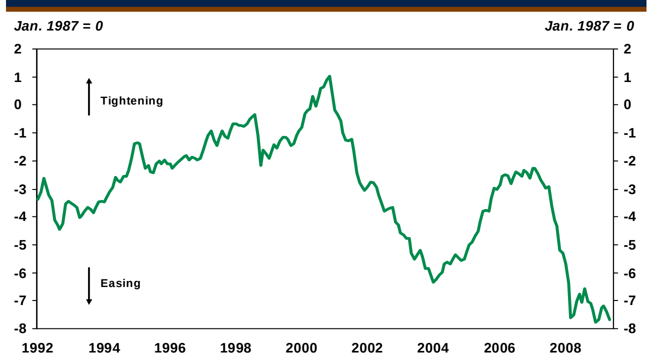
Sources: Datastream and Desjardins, Economic Studies

United States – Inflation rate



* Consumer price index.
Sources: Datastream and Desjardins, Economic Studies

United States – Monetary conditions index



Sources: Datastream and Desjardins, Economic Studies

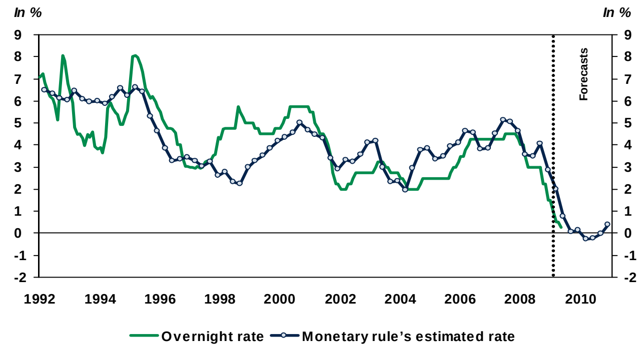
BANK OF CANADA

The Bank is disinclined to change its monetary policy

- In Canada, signs of improvement (or rather, slower deterioration) are also being felt, but prudence is called for before concluding that the situation has turned around: the consumer confidence index rose to 75.2 in April after hitting a low of 67.7 last December, but it is still at a very low level, historically speaking. After shedding 356,600 jobs between November 2008 and March 2009, the labour market surprised us in April, creating 35,900 jobs. For the first time since last September, therefore, the jobless rate remained steady that month, at 8.0%. That said, these kinds of blips in employment are not unusual in a down cycle, and further losses can be expected.
- After posting a record real GDP decline in the first quarter of 2009 (our scenario is calling for a pullback of about 6.5%), the economy's contraction should slowly start to ease in the second and third quarters of this year. A tepid return to positive territory could materialize this fall. 2009 should therefore end with a real GDP contraction of 2.9%. Growth of just 1.4% is forecast for next year.
- Total inflation continued to decline in the last few months as the impacts of past increases in energy prices slowly vanish. The annual change in the total consumer price index (CPI) went from 1.2% in March to 0.4% in April. Food remains the primary source of inflation growth. With this component excluded, the annual change in the CPI would be -1.1% in April.
- The total annual inflation rate should go into negative territory as of next month, marking the start of a temporary deflation period, the first since 1994. Inflation is not expected to return to positive territory until the Fall.
- The recession is having an increasing impact on the capacity utilization rate and output gap. This means we can expect downward pressure on prices to intensify in the months to come. The annual change in the Bank of Canada's core index (CPIX) should decline substantially and remain close to the lower target until 2010.

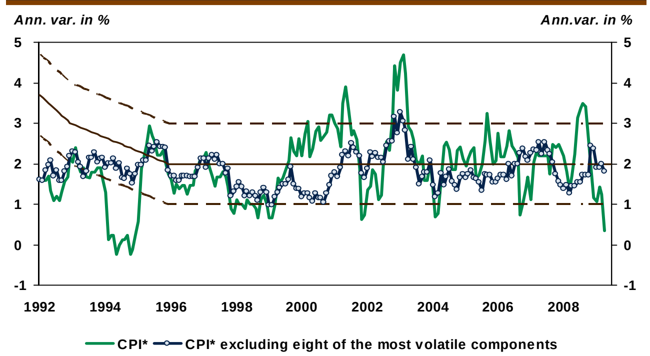
Forecasts: As traditional monetary policy has reached a floor at 0.25%, the door is now open to quantitative easing. The risk that inflation will move substantially below the 2% target over the next few quarters signals that the BoC's work may not be over. However, in light of the recent signs of economic improvement, the BoC will likely prefer to weigh in its policies already in place.

Canada – Monetary rule



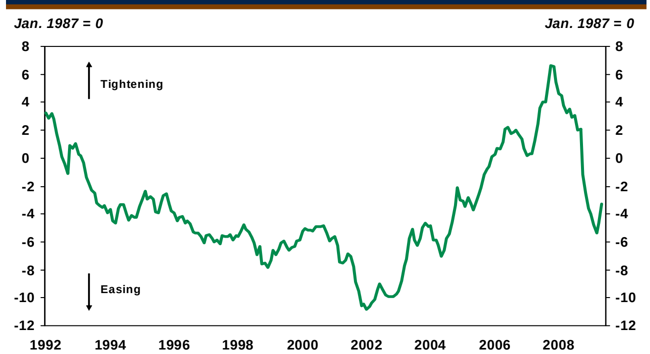
Sources: Datastream and Desjardins, Economic Studies

Canada – Inflation rate



* Consumer price index.
Sources: Datastream and Desjardins, Economic Studies

Canada – Monetary conditions index



Sources: Bank of Canada and Desjardins, Economic Studies

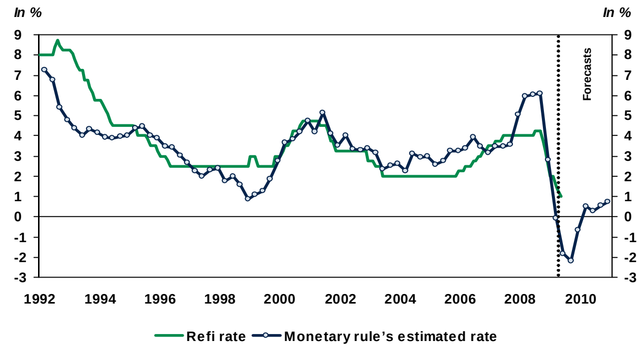
EUROPEAN CENTRAL BANK

The ECB will finally proceed with asset purchases

- The European Central Bank (ECB) lowered its key rate by 25 basis points in April, taking it to 1.00%. It has also lowered its operational range, taking the lending rate down to 1.75% and keeping the deposit rate at 0.25%. These rate movements had been fully priced in. The question was whether the ECB would announce that its key rate had reached a bottom, and whether it would institute new, non-traditional measures. Following a number of contradictory statements from members of the Governing Council, the May meeting was also an opportunity to restore the ECB's image of unity.
- The ECB moved outside of its usual dogmatism to consider the very tough climate. It opted to keep a number of doors open so that it could respond to changes in the situation. Although it deems that, at 1%, the key rate is appropriate given all of the information and studies available, the ECB is not ruling out a further cut. It also decided to institute new measures to buoy credit. In most cases, these involve expanding the programs that are already used to provide the banking system with liquidity. As of the end of June, the ECB will thus proceed with one-year refinancing operations. The ECB has also decided to keep accepting an expanded list of assets as security until the end of 2010.
- The Governing Council has taken one more step in agreeing to buy covered bonds. The terms of the purchase will be released in early June, but the amount should be in the neighbourhood of €60B (US$84B). The ECB is striving to support the mortgage-backed bond market, which has been especially hard hit by the crisis. The purchases will be sterilized so it involves credit easing rather than quantitative easing.
- At first glance, President Trichet seemed to have succeeded in restoring harmony at the ECB and finding common ground to continue supporting Europe's economy and financial systems without taking too many risks. The 9.7% annualized contraction by Euroland's real GDP in Q1 of 2009 was clear testimony to the fact that the ECB could not sit on its hands. However, it only took a few hours for some Council members to start publicly airing their differences of opinion about the possibility of expanding the asset purchases.

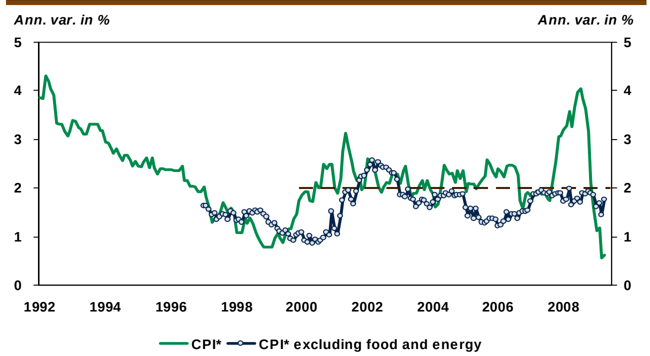
Forecasts: Even though the outlook of very low annual inflation would justify even lower rates according to our monetary rule, the key rate should stay at 1.00% for several quarters. The economic situation is still very tough, but the recent increase in some confidence indexes is bolstering the ECB's decision not to turn to quantitative policy. Other measures to support credit could be added, however.

Euro zone – Monetary rule



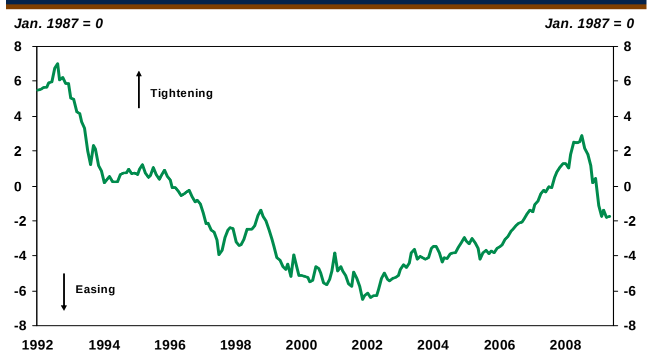
Sources: Datastream and Desjardins, Economic Studies

Euro zone – Inflation rate



* Consumer price index.
Sources: Datastream and Desjardins, Economic Studies

Euro zone – Monetary conditions index



Sources: Datastream and Desjardins, Economic Studies

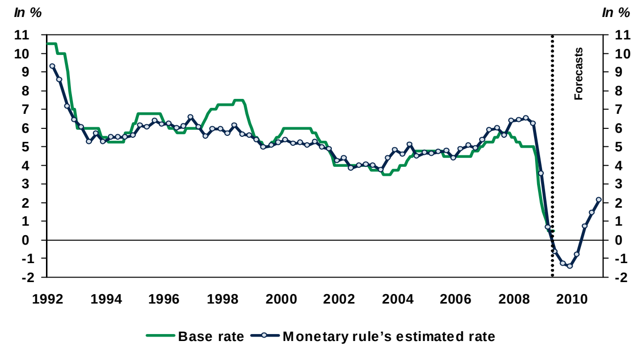
BANK OF ENGLAND

Will the BoE run out of ammunition soon?

- To no one's surprise, the Bank of England (BoE) kept its key rate at 0.50% in May. In the last few months, BoE leaders have clearly stated that they consider this level a floor. However, the BoE did not stay on the sidelines, announcing that it was expanding its asset purchase program by £50B, taking it to £125B (US$200B). It anticipates that it will take three months to finalize the purchases.
- The severity of the recession now slamming the United Kingdom justifies expanding the quantitative measures. The real GDP contraction totalled an annualized 7.3% in the first quarter of 2009 and everything suggests that activity will keep contracting. However, some economic statistics have been showing more encouraging signs for several months. The confidence and activity indexes are still rising and, for a second straight month, retail sales advanced in April. The real estate sector is also still showing signs of stabilizing.
- The recent improvement by a number of economic statistics, however, must be read as a sign that the economy's contraction is beginning to slow, not as news of an imminent economic recovery. The financial system remains shaky and there are still many obstacles to a return to close to potential growth. The BoE's new economic scenario, presented in the May Inflation Report, calls for the recession to persist for the near future, followed by a relatively slow recovery. Substantial excess production capacity will put downside pressure on the annual inflation rate. At 2.3% in April, it is still just over the target. According to the BoE, "It is more likely than not that CPI inflation will be below the 2% target in the medium term."
- The assessment that there is a dominant risk of overly weak inflation and the conviction that, in this context, it is better to do too much than not enough explain the BoE's decision to expand its quantitative measures in May. However, the Bank acknowledges that the impact of these unconventional actions is hard to assess. Financial strains have therefore plunged in the last few months, but gilt rates have increased. These movements are primarily associated with developments in the international financial context.

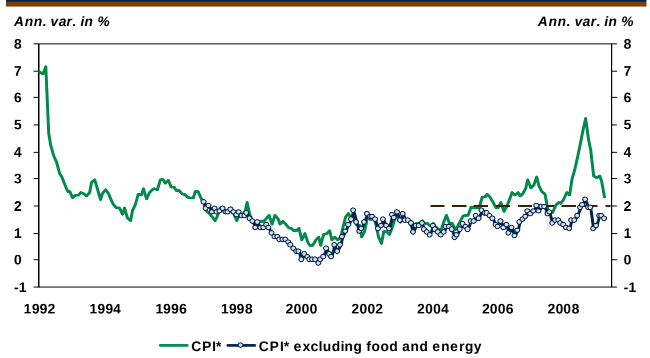
Forecasts: Britain's key rate will not change for several quarters. Asset purchases will continue until the end of the summer and could be expanded again if hopes of the economy's stabilization do not materialize. Warnings from the International Monetary Fund (IMF) and credit rating agencies as to the deterioration in public finances and risks of a downgrade could, however, limit British authorities' leeway.

United Kingdom – Monetary rule



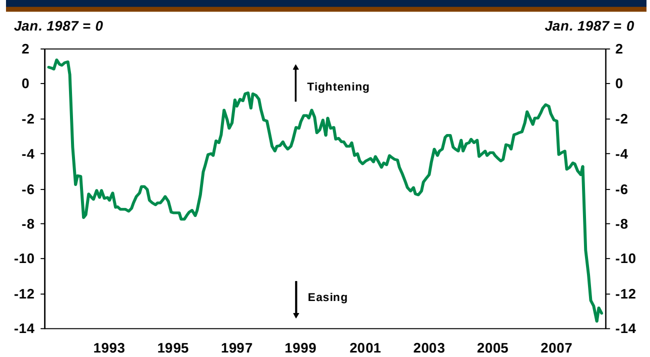
Sources: Datastream and Desjardins, Economic Studies

United Kingdom – Inflation rate



* Consumer price index.
Sources: Datastream and Desjardins, Economic Studies

United Kingdom – Monetary conditions index



Sources: Datastream and Desjardins, Economic Studies

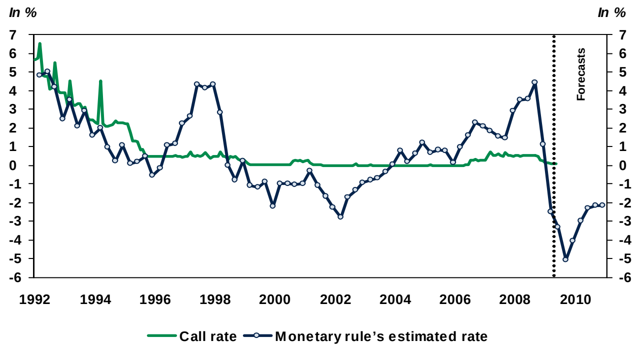
BANK OF JAPAN

The plunge by real GDP should slow substantially next quarter

- The Japanese economy's contraction–the worst contraction among G7 nations– is looking more and more like a true economic depression. The Bank of Japan (BoJ) lowered its key interest rate to 0.1% in December and deployed a number of non-traditional measures to attempt, among other things, to restore better credit conditions there.
- Japan's real GDP contracted by an annualized 15.2% in the first quarter of 2009, following a decline of -14.4% in the last quarter of 2008. From the cycle's peak in the first quarter of 2008, Japan's economic activity as pulled back by 9.10%. The collapse in international merchandise trade and the yen's increase at the end of last year explain much of this slump. The country has also seen credit conditions deteriorate, especially in the commercial sector. Domestic demand is doing badly due to the drop in business profits, a more precarious job market and contraction in household incomes. Japan's recession, combined with the drop in base product prices, has also put the country back on the road to deflation.
- The plunge by real GDP should slow substantially in the second quarter. Exports seem to have bottomed out in February, along with industrial production. Government spending should also grow this year, with the deployment of a recovery plan worth about US$150B. However, it is still too early to speak of a real recovery. Domestic demand will remain very shaky and foreign demand, although more stable, will be weak for the quarters to come.
- The BoJ will therefore have to keep its key interest rate at 0.1% for several more quarters. For now, beneficial effects will mainly be created by the other measures the central bank has instituted, such as buying commercial paper and corporate bonds. Monetary authorities have noted an improvement in business financing conditions, among others.
- Government financing conditions have been changed lately. Moody's, the rating agency, downgraded Japanese debt denominated in foreign currency to AA2, and raised the rating on yen-denominated debt to the same level. Bond rates continue to benefit from the high Japanese savings rate and substantial local bias.

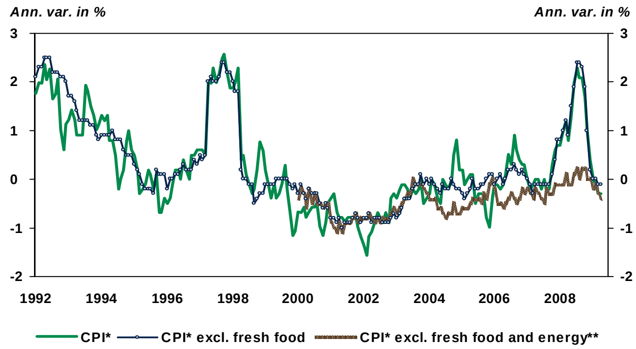
Forecasts: In Japan, the recession is a severe one that has brought deflation back. Despite some signs of stabilizing, a true economic recovery does not seem to be imminent. Monetary authorities will have to stay with their low interest rate policy for several more quarters.

Japan – Monetary rule



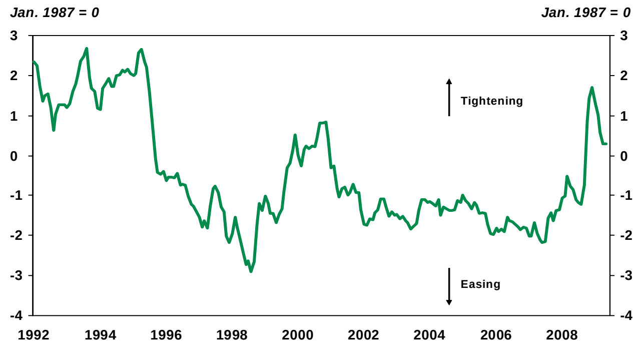
Sources: Datastream and Desjardins, Economic Studies

Japan – Inflation rate



* Consumer Price Index; ** The series begins in 2000.
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 %	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2f	2009 Q3f	2009 Q4f	2010 Q1f	2010 Q2f	2010 Q3f	2010 Q4f
United States												
Federal funds	2.25	2.00	2.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Canada												
Overnight funds	3.50	3.00	3.00	1.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Euro zone												
Refinancing rate	4.00	4.00	4.25	2.50	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.50
United Kingdom												
Base rate	5.25	5.00	5.00	2.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00
Japan												
Overnight funds	0.50	0.50	0.50	0.30	1.30	0.10	0.10	0.10	0.10	0.10	0.10	0.50

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

Table 2
Schedule and key rates

Date	Central Bank	Decision	Rate
March 2009			
5	Bank of England	-50 b.p.	0.50
5	European Central Bank	-50 b.p.	1.50
11	Reserve Bank of New Zealand	-50 b.p.	3.00
11	Bank of Brazil	-150 b.p.	11.25
12	Swiss National Bank	-25 b.p.	0.25
17	Bank of Japan	s.q.	0.10
18	Federal Reserve	s.q.	0,00 / 0,25
20	Bank of Mexico	-75 b.p.	6.75
25	Bank of Norway	-50 b.p.	2.00
April 2009			
2	European Central Bank	-25 b.p.	1.25
6	Bank of Japan	s.q.	0.10
7	Reserve Bank of Australia	-25 b.p.	3.00
9	Bank of England	s.q.	0.50
17	Bank of Mexico	-75 b.p.	6.00
21	Bank of Sweden	-50 b.p.	0.50
21	Bank of Canada	-25 b.p.	0.25
29	Reserve Bank of New Zealand	-50 b.p.	2.50
29	Bank of Brazil	-100 b.p.	10.25
29	Bank of Japan	s.q.	0.10
29	Federal Reserve	s.q.	0,00 / 0,25
Mai 2009			
5	Reserve Bank of Australia	*s.q.*	3.00
6	Bank of Norway	-50 p.b.	1.50
7	Bank of England	*s.q.*	0.50
7	European Central Bank	-25 p.b.	1.00
15	Bank of Mexico	-75 p.b.	5.25
21	Bank of Japan	*s.q.*	0.10

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

Table 3
Coming soon

Date	Central Bank
June 2009	
2	Reserve Bank of Australia
4	Bank of England
4	European Central Bank
4	Bank of Canada
10	Reserve Bank of New Zealand
10	Bank of Brazil
15	Bank of Japan
17	Bank of Norway
18	Swiss National Bank
19	Bank of Mexico
24	Federal Reserve
July 2009	
2	European Central Bank
2	Bank of Sweden
7	Reserve Bank of Australia
9	Bank of England
14	Bank of Japan
17	Bank of Mexico
21	Bank of Canada
22	Bank of Brazil
29	Reserve Bank of New Zealand
August 2009	
4	Reserve Bank of Australia
6	Bank of England
6	European Central Bank
10	Bank of Japan
12	Bank of Norway
12	Federal Reserve

Source: Desjardins, Economic Studies

Table 5
United States: fixed income market

End of period in %	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2f	2009 Q3f	2009 Q4f	2010 Q1f	2010 Q2f	2010 Q3f	2010 Q4f
Key rate												
Federal funds	2.25	2.00	2.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Treasury bills												
3-month	1.38	1.90	0.92	0.11	0.21	0.20	0.20	0.25	0.25	0.30	0.40	0.70
Federal bonds												
2-year	1.62	2.61	1.99	0.76	0.81	0.85	0.85	0.90	1.00	1.25	1.50	1.75
5-year	2.47	3.33	2.98	1.55	1.68	2.00	1.75	1.80	1.85	1.95	2.10	2.60
10-year	3.43	3.98	3.82	2.25	2.69	3.00	2.75	2.80	2.90	3.00	3.10	3.50
30-year	4.30	4.53	4.30	2.69	3.57	4.20	4.00	3.90	4.00	4.20	4.40	4.50
Yield curve												
5-year - 3-month	1.09	1.43	2.06	1.44	1.47	1.80	1.55	1.55	1.60	1.65	1.70	1.90
10-year - 2-year	1.81	1.36	1.84	1.49	1.88	2.15	1.90	1.90	1.90	1.75	1.60	1.75
30-year - 3-month	2.92	2.63	3.38	2.58	3.36	4.00	3.80	3.65	3.75	3.90	4.00	3.80

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

Table 6
Canada: fixed income market

End of period in %	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2f	2009 Q3f	2009 Q4f	2010 Q1f	2010 Q2f	2010 Q3f	2010 Q4f
Key rate												
Overnight funds	3.50	3.00	3.00	1.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Treasury bills												
3-month	1.88	2.50	1.90	0.89	0.40	0.25	0.25	0.25	0.30	0.35	0.40	0.70
Federal bonds												
2-year	2.63	3.25	2.79	1.09	1.07	1.05	1.05	1.10	1.15	1.40	1.65	1.85
5-year	2.91	3.46	3.17	1.70	1.75	2.20	2.05	2.10	2.15	2.25	2.35	2.70
10-year	3.43	3.74	3.76	2.69	2.78	3.20	2.95	3.05	3.10	3.20	3.30	3.60
30-year	3.94	4.08	4.23	3.46	3.56	3.95	3.80	3.90	4.10	4.30	4.50	4.50
Yield curve												
5-year - 3-month	1.03	0.96	1.27	0.81	1.35	1.95	1.80	1.85	1.85	1.90	1.95	2.00
10-year - 2-year	0.80	0.49	0.97	1.60	1.71	2.15	1.90	1.95	1.95	1.80	1.65	1.75
30-year - 3-month	2.06	1.58	2.33	2.57	3.16	3.70	3.55	3.65	3.80	3.95	4.10	3.80
Spreads (Canada - U.S.)												
3-month	0.50	0.60	0.98	0.78	0.19	0.05	0.05	0.00	0.05	0.05	0.00	0.00
2-year	1.01	0.63	0.80	0.32	0.27	0.20	0.20	0.20	0.15	0.15	0.15	0.10
5-year	0.44	0.13	0.19	0.15	0.07	0.20	0.30	0.30	0.30	0.30	0.25	0.10
10-year	0.00	-0.24	-0.07	0.44	0.09	0.20	0.20	0.25	0.20	0.20	0.20	0.10
30-year	-0.36	-0.45	-0.07	0.76	0.00	-0.25	-0.20	0.00	0.10	0.10	0.10	0.00

f: forecasts
Sources: Datastream and Desjardins, Economic Studies