

The Bank of Canada's hands are tied: no key rate increase until the second half of 2010

HIGHLIGHTS

- The bond market continues to do well. As forecast, after testing in September the bottom of our target range for the fall (3.25% to 3.75%), U.S. 10-year rates have climbed toward 3.50% on the basis of higher oil prices and another surge by riskier positions.
- With the frenzied contraction in bank lending, the soft greenback and a lot of cash still on the sidelines, many players are in position to take over from the Federal Reserve in terms of Treasuries purchases. Rates will remain trapped in a tight band until the end of the year, and could go back to September's cyclical low if investors' enthusiasm moderates.
- It would be preferable to bank on the spread with countries that are the most likely to bring interest rates up quickly. Australia and Norway have already moved and the bets are on that New Zealand and Canada—countries that are also tied to the evolution of raw materials prices—will be the next to jump on the bandwagon.
- Everything suggests that the Bank of Canada will keep its commitment to maintaining the key rate at a low of 0.25% until June 2010. A scenario of slightly lower inflation than forecast could even force the Bank to put off the first rate increases until later.

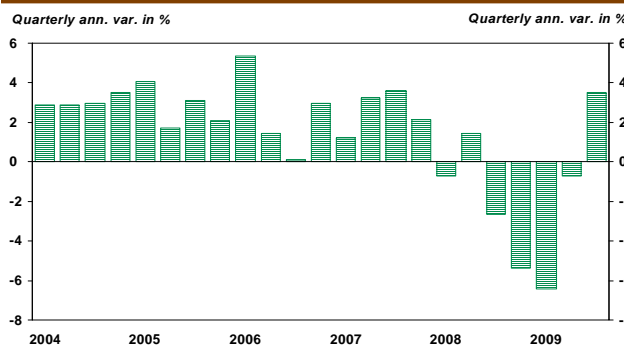
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Summary

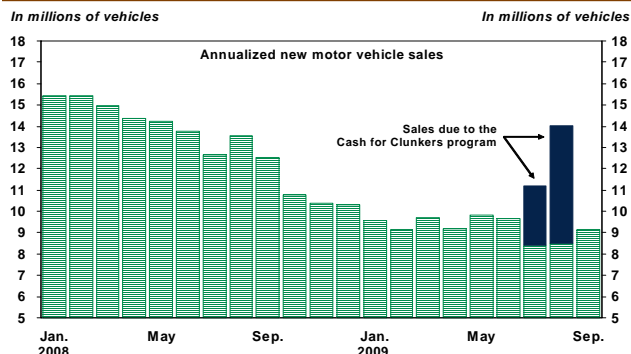
Overall, the economic statistics continue to look up in the United States, signalling renewed activity (graph 1). The Cash for Clunkers program and subsidy for households purchasing their first home appear to have helped fill some of the gaping holes left by the auto sector and housing market. However, the programs' impacts will quickly wane (graph 2) and there

Graph 1 – The U.S. economy starts to grow again



Sources: Census Bureau and Desjardins, Economic Studies

Graph 2 – The rebound by auto sales prompted by the Cash for Clunkers program was only temporary in the United States



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

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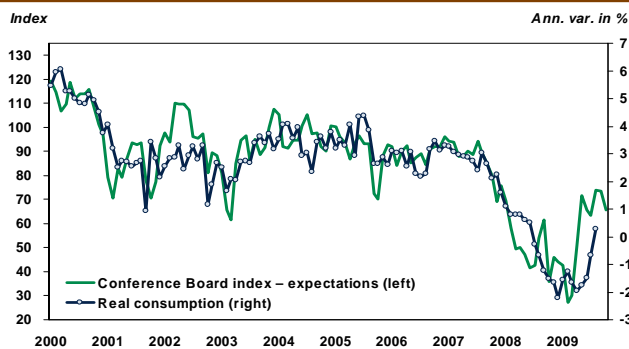
NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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are still too few indications that the private sector will be able to take over the reins from the government in the near future.

With commercial construction lagging behind housing construction, non-residential investment will be very soft or even negative in the coming quarters. Consumption has rebounded, but the latest results for household confidence show that, despite the surge in the stock markets, consumers (graph 3) are cautious given the ongoing deterioration in the job market, difficulty getting credit, and the need to clean up their balance sheets.

Graph 3 – Confidence is still in line with a rise by consumption without pointing to high growth rates

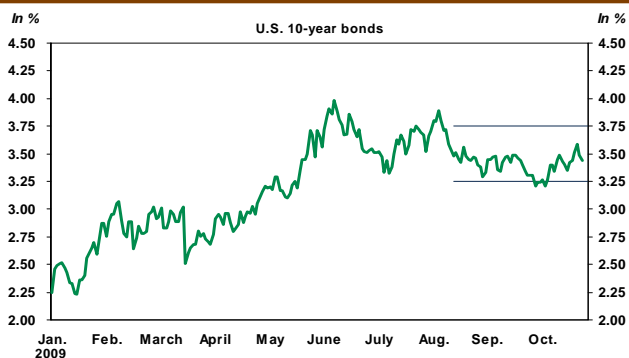


Sources: Conference Board, Bureau of Economic Analysis and Desjardins, Economic Studies

THE BOND MARKET IS RESILIENT

In this environment, the bond market continues to do well (graph 4). After testing the bottom of our target range for the fall (3.25% to 3.75%) in September, as forecast, U.S. 10-year rates have climbed toward 3.50% on the basis of higher oil prices and another surge in riskier assets. Rates peaked lately pending the major issue of Treasuries (US\$123B) in the week of October 26. However, demand proved to be much stronger than forecast which, combined with the unexpected drop in consumer confidence and new home sales, pushed bond rates down.

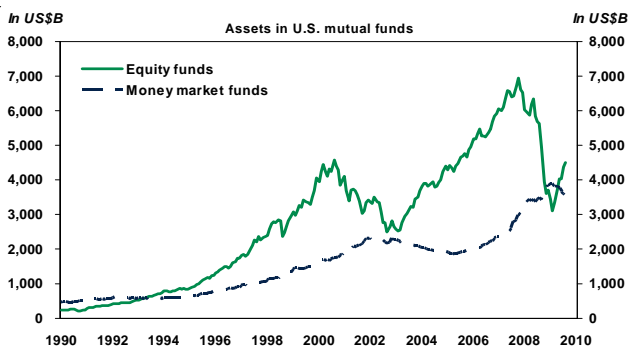
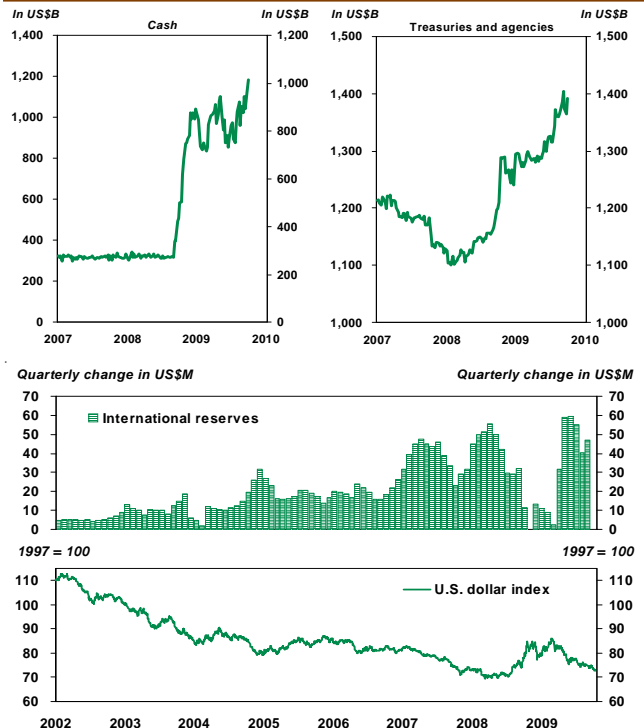
Graph 4 – U.S. ten-year rates should continue to oscillate in a tight band



Sources: Datastream and Desjardins, Economic Studies

These developments are especially encouraging given that the Federal Reserve's (Fed) Treasury purchase program is ending, reassuring us about the bond market's intrinsic dynamics in the context of excessive economic slack and subdued inflation. Clearly, with the frenzied contraction in bank lending¹, the soft greenback and a lot of cash still on the sidelines, many players are in position to take over from the Fed (graph 5).

Graph 5 – Many players are in position to take over from the Fed

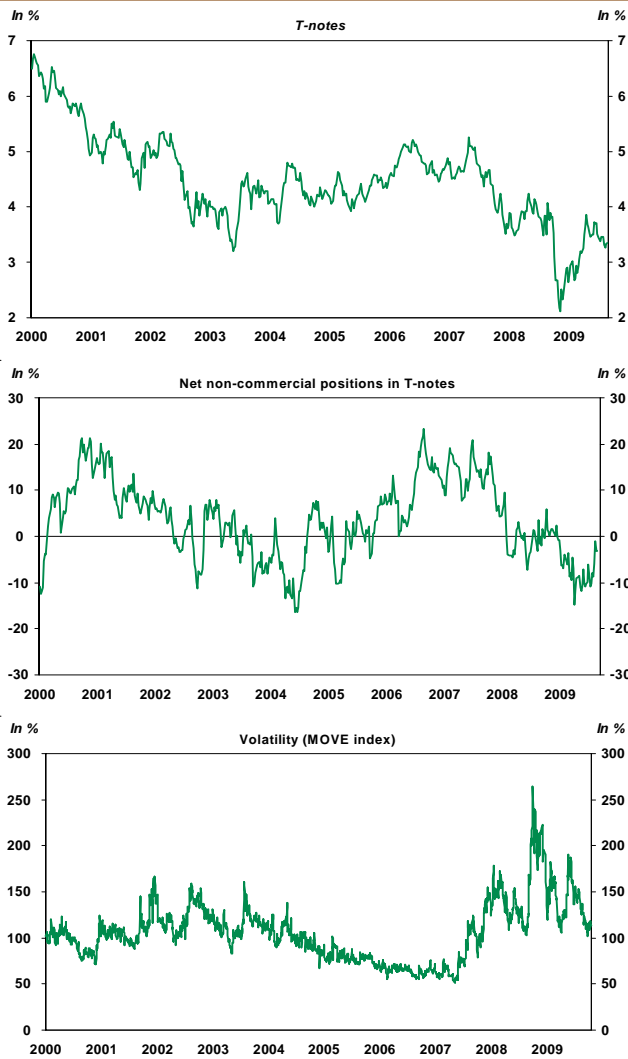


Sources: Bloomberg, Federal Reserve, Datastream and Desjardins, Economic Studies

¹ For further details, see the August 31, 2009 issue of *The Yield Curve*, titled "The stock market is climbing, but demand for Treasuries stays strong. Odd? Not really!"

Rates will remain trapped in a tight band until the end of the year, and could go back to September's cyclical low if investors' enthusiasm moderates. The bond market rally is somewhat lengthy, corporate earnings may not beat expectations and the economic recovery promises to be modest at best. Speculative positions are neutral and are not setting any clear direction for the bond market, akin to the volatility indexes, which show that the Fed's policies have some credibility with the market (graph 6).

Graph 6 – The bond market is not setting a clear direction



Sources: Bloomberg, Datastream and Desjardins, Economic Studies

Here, we are fairly confident that the monetary authorities will keep reassuring the entire market by, on the one hand, asserting that surplus production capacity will allow them to keep interest rates exceptionally low for a long time and, on

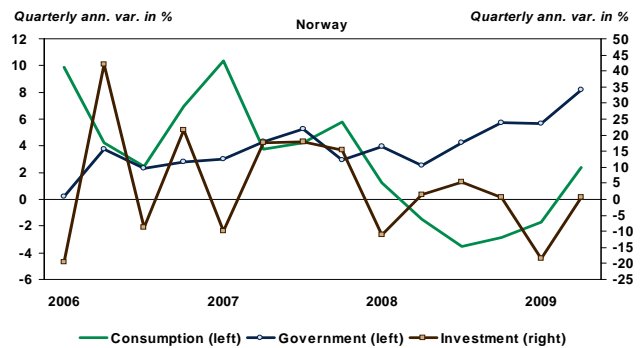
the other, gradually disclosing their exit strategies so as to contain inflation expectations.

We continue to look for a disinflationary environment, which should ensure that the bond rate rise remains contained. However, the impacts of rising oil prices on the total price index and return of economic growth mean that the U.S. bond market has little potential at this point. Consequently, it would be preferable to bank on the spread with countries that are the most likely to bring interest rates up quickly. Australia and Norway have already moved and the bets are on that New Zealand and Canada—countries that are also tied to the evolution of raw materials prices—will be the next to jump on the bandwagon.

THE GLOBAL MONETARY FIRING CYCLE IS UNDERWAY

We had already speculated that Norway could tighten its monetary policy before the end of the year². In a context in which the main concern reflected the drop in global demand for oil, the world's economic recovery, combined with efforts by government and monetary authorities to kick start the local economy, meant that keeping interest rates at a historic low of 1.25% was no longer justified following higher oil prices, an upswing in home prices and a healthy employment market (graphs 7 to 9). Clearly, other rate hikes will follow.

Graph 7 – Consumption by governments and households supports the recovery

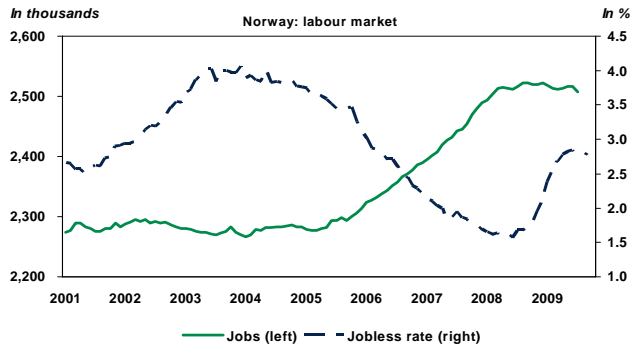


Sources: Datastream and Desjardins, Economic Studies

New Zealand's case is not as cut and dried. The country returned to growth in the second quarter but, contrary to Australia, the recession had a deeper impact on New Zealand's economy and it has a bigger shortfall to make up. Among other things, its economy is more dependent on foreign trade and its currency has shot up by almost 50% since the start of

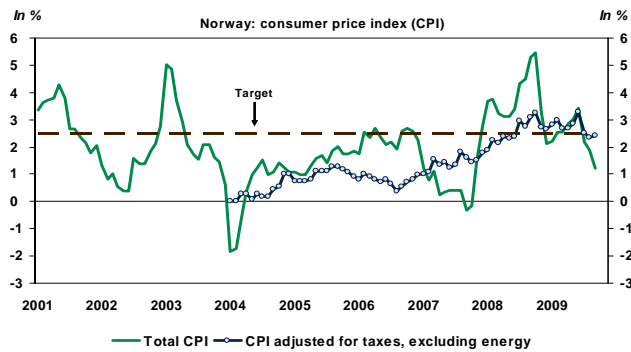
² For more details, see the October 19, 2009 issue of *FX Forecasts*, titled "The global monetary firing cycle will primarily benefit commodity currencies."

Graph 8 – Employment has not really dropped and the jobless rate remains quite low



Sources: Datastream and Desjardins, Economic Studies

Graph 9 – Inflation is close to the central bank's target



Sources: Datastream and Desjardins, Economic Studies

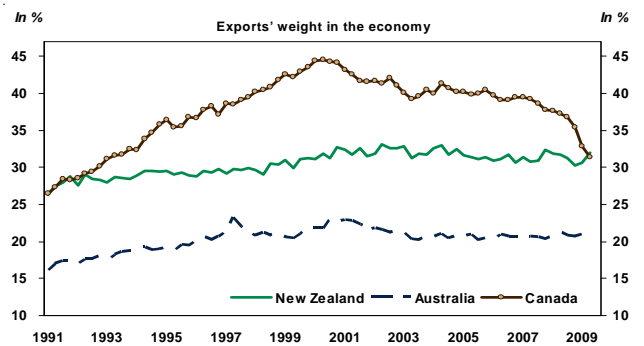
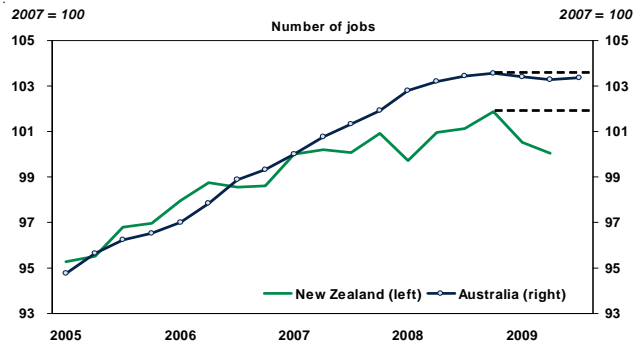
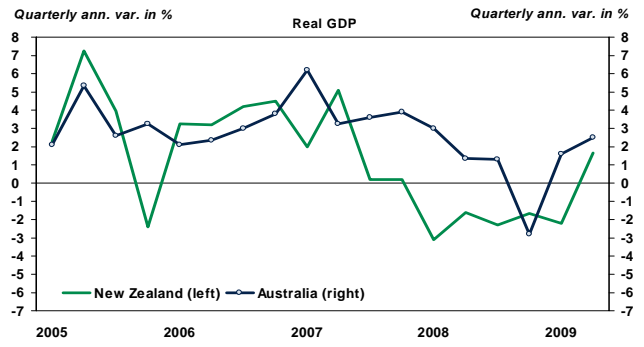
the year, which is really slamming its economy (graph 10). Under these circumstances, the Reserve Bank of New Zealand will remain prudent in conducting its monetary policy, but the country will still be the favourite to be first to raise its rates, probably in Q1 of 2010.

CANADA HAS MORE LEEWAY

Canada's bond market was profoundly shaken following the revaluation of expectations regarding the future monetary firming cycle. After the Reserve Bank of Australia raised its key rate on October 6, rebounding employment in Canada prompted the markets to anticipate faster increases than forecast here. Two-year rates thus jumped by almost 50 basis points on the news (graph 11). At that level, the market closed in on a rare aberration.

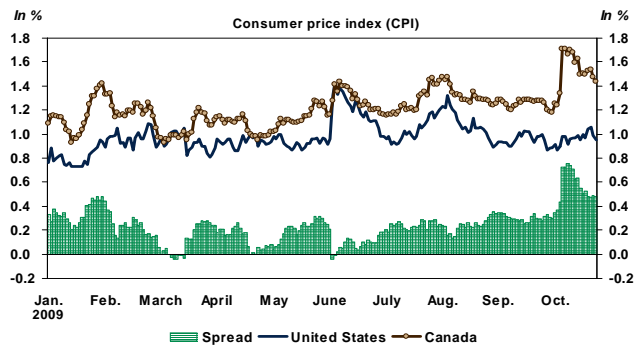
As the loonie was a hair away from parity with the greenback, the Bank of Canada (BoC) pulled out all the stops in setting the record straight. In its October *Monetary Policy Report*, the BoC revealed its concerns about a strong loonie by asserting that, over time, the dollar's current strength would more than offset the positive developments noted since July. Unsurprisingly, the BoC reiterated its conditional commitment

Graph 10 – The economy contracted more steeply in New Zealand: Australia also avoided a recession



Sources: Datastream and Desjardins, Economic Studies

Graph 11 – The rise by Canadian two-year rates was almost aberrant

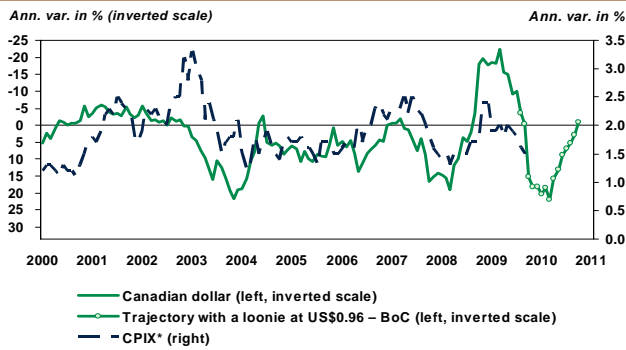


Sources: Datastream and Desjardins, Economic Studies

to keeping its key rate at a lower bound of 0.25% until mid-2010. Since then, the bond market has appreciated and the loonie has tumbled.

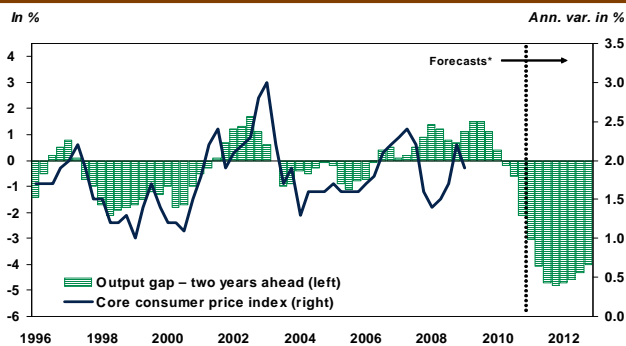
A lot remains to be done to calm expectations. With Australia and Norway already in firming mode, the bond market will keep testing the BoC's resolution in the coming quarters. This will certainly produce some good opportunities for returns. Judging by the BoC's outlooks for growth and inflation, the most likely trajectory for Canada's bond rates is tilted to the upside. In the very near term, however, the risks of non-energy disinflation risks and modest growth seem to be greater than the BoC is intimating (graphs 12 and 13), which could trigger a market rally from rates that already seem to be too high.

Graph 12 – The strong loonie is putting downside pressure on prices



* Consumer price index excluding the eight most volatile components.
Sources: Datastream and Desjardins, Economic Studies

Graph 13 – Downside pressures on inflation will intensify in Canada



* As of Q4 of 2010.
Sources: Statistics Canada and Desjardins, Economic Studies

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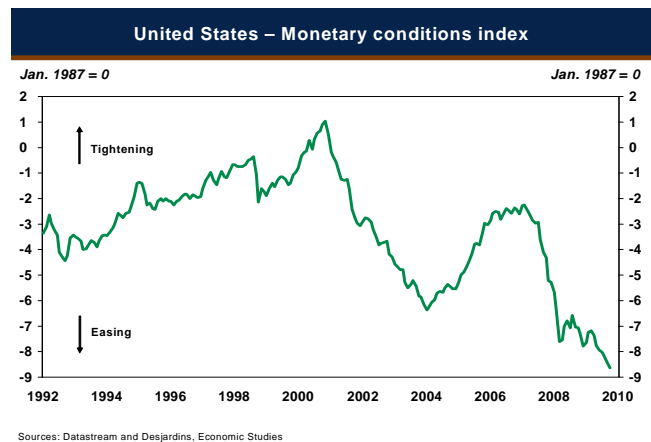
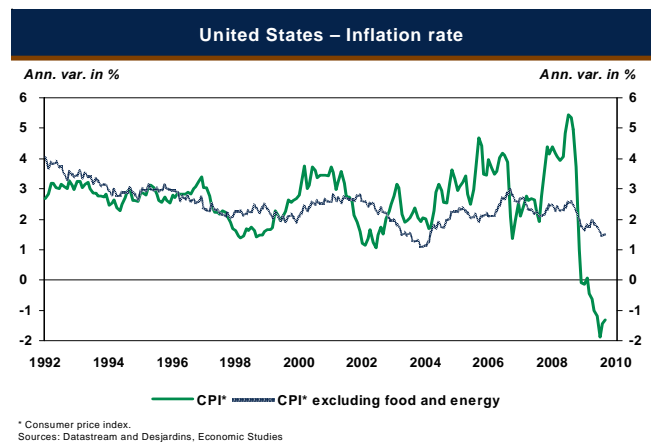
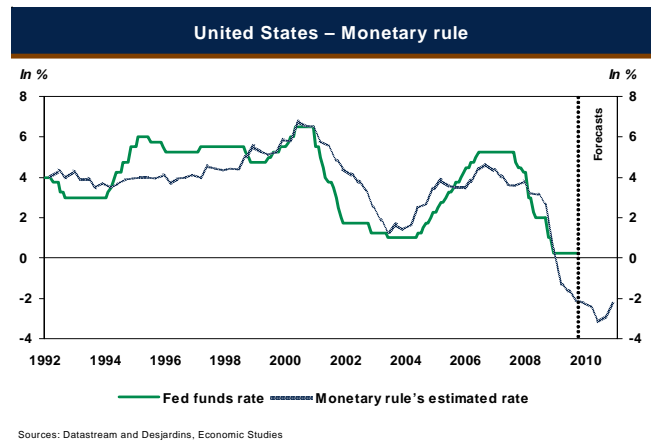
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FEDERAL RESERVE

The economy and inflation do not call for hasty rate hikes

- The American economy seems to have come out of the recession, if we believe the 3.5% real GDP growth recorded for the third quarter. The performance must partially be chalked up to the Federal Reserve (Fed), whose expansionary policies have helped to stabilize the housing market, among others. This means that, for the first time since 2005, residential investment has made a positive contribution to GDP. The Fed's purchases of mortgage securities and Treasuries have allowed mortgage rates to stay relatively low while facilitating the securitization of new mortgages.
- On the other hand, as forecast, the Fed will soon be winding down these unconventional policies and its direct support for the mortgage market will wane. Although the Fed's balance sheet will remain large, the economy's primary support will thus mainly stem from low key rates.
- The monetary rule that is based on inflation expectations and output gap also suggests that key rates must remain highly accommodative even if the economic situation improves and the period of energy price deflation soon ends.
- Total inflation is gradually moving off of the abyss reached this summer. After bottoming out at -2.1% in July, the annual change in the consumer price index (CPI) is slowly recovering. Inflation was -1.5% in August and -1.3% in September. Although it was no doubt still negative in October, it should return to positive territory by November. Core inflation, which excludes food and energy, should continue to moderate, dropping under 1% next spring.
- The real GDP growth that started this summer could last throughout 2010. However, growth could be less strong by the end of the year. A fairly sharp pullback is already occurring in auto sales. Moreover, consumer confidence has been showing a little weakness lately. Lastly, some segments of the housing market seem to be cresting. If we also factor in the ongoing contraction in consumer credit and soft job market, the Fed will remain prudent about raising its key rates.
- Fed leaders will also have to consider the fact that the stimulus generated by the federal government's actions will be less present as of 2011. Taking interest rates up too sharply could increase the risks of an economic downturn.

Forecasts: The recession seems to be over in the United States, but the recovery is still shaky. Our scenario for U.S. monetary policy therefore remains unchanged; the Fed will wait until the second half of 2010 before starting to raise its key rates cautiously.

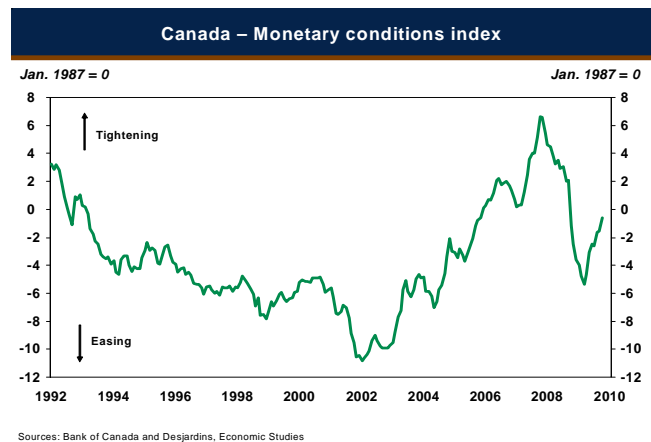
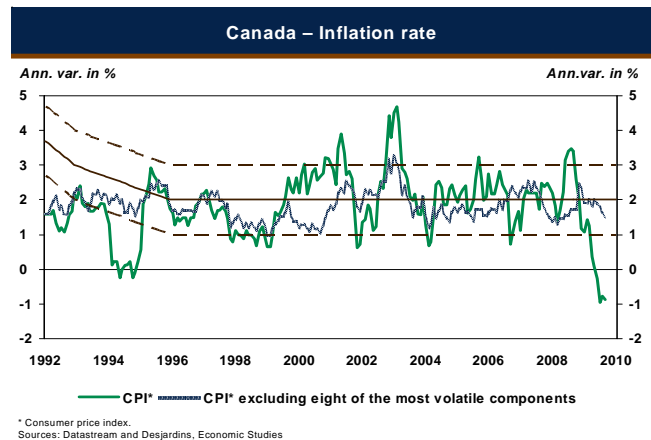
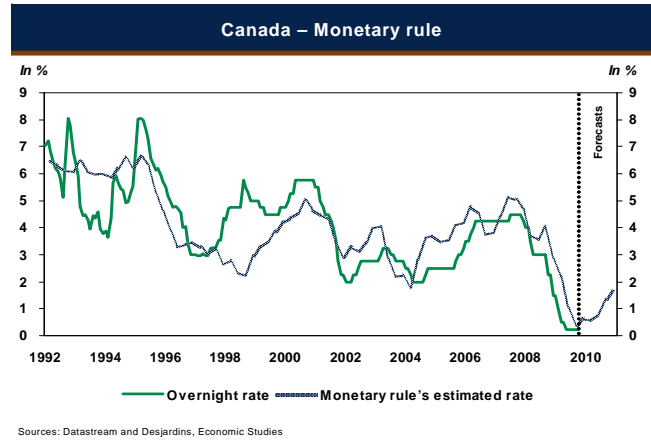


BANK OF CANADA

The Bank shows its teeth

- To no one's surprise, the Bank of Canada (BoC) left its key rate at the lower bound of 0.25% in October. The optimism the monetary authorities had been showing in the last few months gave way to greater caution, however.
- This is because the latest economic data have been painting a fairly mixed picture of the situation. Preliminary figures suggest that the improvement in household sentiment, increase in commodity prices, low interest rates and relatively good performance by the employment market allowed consumer spending to rebound this summer. Housing construction has also come back to life and should make a big contribution to real GDP in the third quarter. However, foreign trade is still being hurt by anaemic American demand and the strong loonie, which will substantially impede overall economic activity.
- According to the BoC, the strong Canadian dollar, which was a risk at September's meeting, is now such a curb on growth and inflation that it will more than fully offset the impacts of the positive developments noted since July.
- The total annual inflation rate fell to -0.9% in September, as in July. However, deflation, which is specific to high oil prices at the same time last year, promises to be short-lived and will no doubt not be a concern for the monetary authorities.
- Their whole focus will thus be on what the core index (CPIX) is doing. With interest rates at a low of 0.25%, the balance of the risks to inflation is tilted to the downside. The core index's annual change, now at 1.5%, should gradually decline (especially towards the end of 2009) as the widening negative output gap makes itself felt increasingly. The lively loonie is only making the situation worse.
- At this point in the economic cycle, the strategy seems to be completely in line with our monetary rule, which indicates that the "zero" rate policy should be maintained until at least the second half of 2010.

Forecasts: Everything suggests that the BoC will keep its commitment to maintaining the key rate at a low of 0.25% until June 2010. A scenario of slightly lower inflation than forecast could even force the BoC to put off the first rate increases until later.

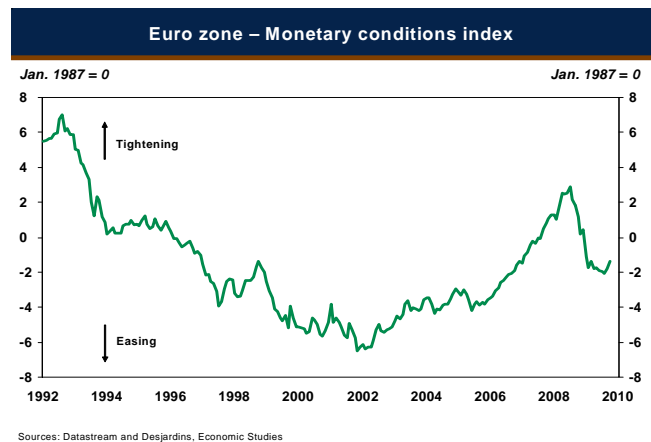
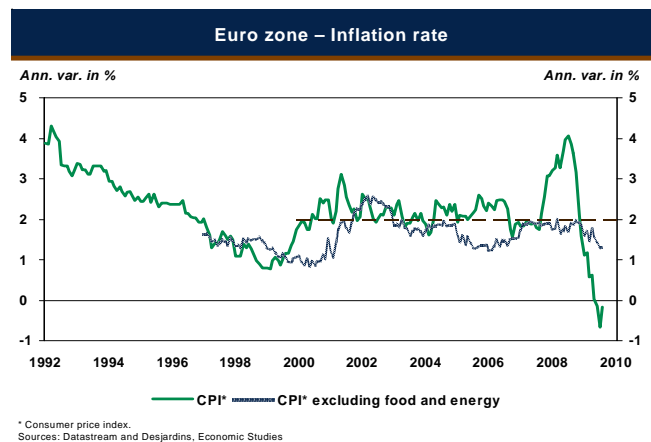
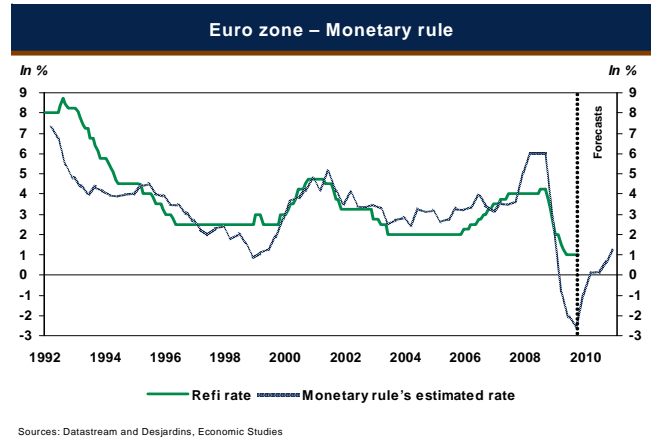


EUROPEAN CENTRAL BANK

No reason for quick key rate hikes

- As expected, the European Central Bank (ECB) opted to keep its key rate at 1.00% in October. According to the Bank, the statistics released in the last few months confirm its scenarios for the economy and inflation. Euroland's monetary authorities still believe that the zone's economy is stabilizing and should slowly return to growth. Uncertainty remains elevated and ongoing balance sheet adjustments in the financial and non-financial sectors could affect growth over the medium term. Everything points to inflation pressures remaining subdued in the coming quarters.
- Following a small 0.7% annualized decline last spring, Euroland's economy should have posted slight growth in Q3 of 2009. Consumer and business confidence indicators indicate a substantial improvement in the situation and industrial output rose in July and August. Moreover, the purchasing manager indexes point to activity growth in the services and manufacturing sectors. Despite August's decline, the trade balance should also make a positive contribution to growth in the third quarter. However, the struggles in the labour and credit markets are still sapping the internal economy.
- Price evolution will continue to reflect weak demand in the euro zone and elsewhere in the world. At -0.1% in October according to the flash estimate, the inflation rate should shortly be back in positive territory, but it will remain low for a number of quarters. Low core inflation also indicates that the ECB has substantial leeway.
- Usually quite sparing in his comments on the euro's value, after October's decision, President Jean-Claude Trichet noted that a strong U.S. dollar is important and stressed that the ECB had no strategy for promoting international use of the euro. The Council also emphasized the importance of getting ambitious, realistic measures into place quickly to ensure the sustainability of zone governments' fiscal situations.

Forecasts: The economy appears to have started recovering in the euro zone, but the situation is still shaky and there is nothing to point to strong growth over the coming quarters. Soft inflation pressure means that the key rate will be able to remain at 1.00% until at least mid-2010 to support the zone's economic recovery, which promises to be modest. Our monetary rule confirms the need to keep rates very low for several more quarters. The deterioration in public finances and strong euro could become an increasing concern for the ECB.

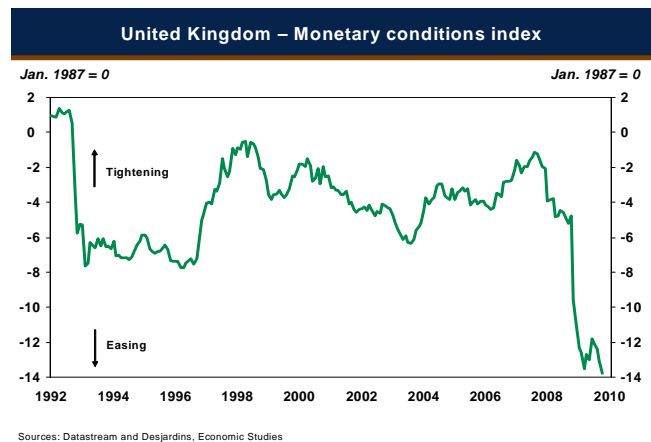
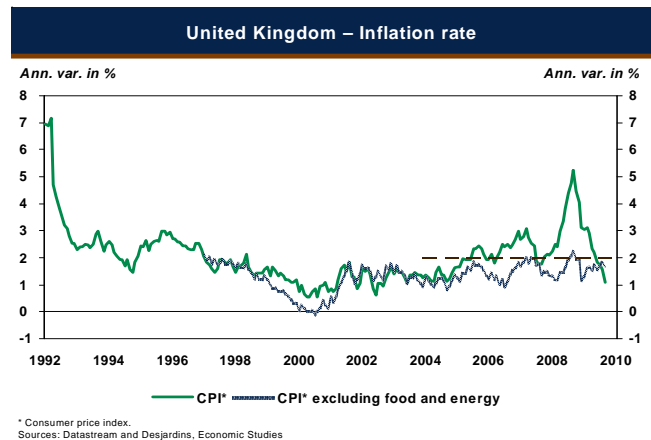
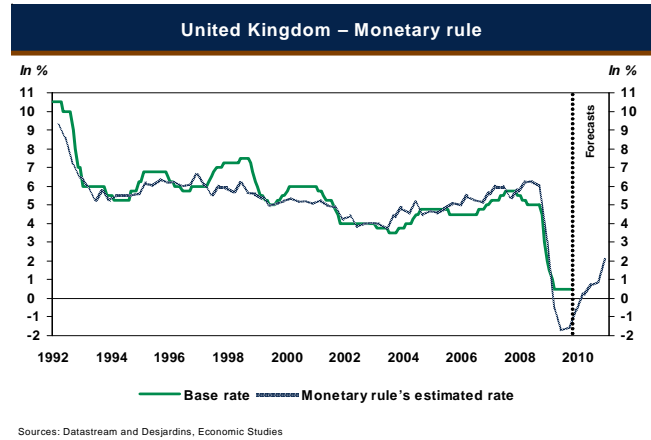


BANK OF ENGLAND

Will quantitative measures be expanded one last time?

- The Bank of England (BoE) made no changes to its monetary policy at its October meeting. The key rate remained 0.50%, while the amount dedicated to the asset purchase program financed by creating reserves stayed at £175B (US\$280B). When the monetary policy committee meets on November 5, the quantitative policy program will be completed and it will no longer be possible to postpone a decision on whether or not to extend it.
- The minutes of October's meeting showed that committee opinions were still divergent regarding the balance of risk to inflation over the medium term. At their next meeting, committee members will be able to base their decisions on the new forecasts in November's *Inflation Report*.
- The latest economic statistics released by the United Kingdom are painting a fairly mixed picture of the situation. The domestic economy is showing surprising results, particularly with regard to the real estate market's recovery. After dropping 20% during the crisis, home prices have gained almost 10% since then. British consumer confidence is also posting an encouraging rise. However, Britain's economy is still showing some weak spots: the trade balance is taking its time in improving and the number of jobless is still skyrocketing. Moreover, after rising for two months, Britain's industrial output tumbled 2.5% in August. Hopes that the recession ended in the summer fell through when Britain's GDP pulled back by an annualized 1.6% in the third quarter.
- After remaining relatively high, Britain's inflation rate fell by 0.5% in September, going to 1.1%. A number of temporary factors could prompt further major swings in inflation over the coming months. However, the British economy's substantial surplus capacity, which increased once again in the third quarter, and soft income growth indicate that inflation pressure will remain weak over the medium term. One point in the BoE's favour is that its actions appear to be starting to pay off, supporting money supply growth and prompting a little easing in lending conditions.

Forecasts: The decision as to whether or not to expand the quantitative measures in November is not an easy one. However, inflation's recent decline and unexpected downswing by Britain's economy in the third quarter could well, once again, tip the scales in favour of doing more rather than not doing enough. As for the key rate, it seems clear that it will stay where it is until at least mid-2010.



BANK OF JAPAN

Interest rates must remain low for a long time to eradicate deflation

- At its last meeting on October 29, the Bank of Japan (BoJ) once again opted for the status quo, keeping its primary key interest rate close to 0%. Measures announced previously are helping the financial markets and Japan's economy to get back on their feet, but the road toward a full recovery promises to be a long one.
- Japan was one of the first countries to emerge from recession last spring. It could nonetheless be one of the last to make up the losses that it racked up during the crisis. Japan's real GDP is still 7.5% below where it was at its peak in the winter of 2008 and, although it is up, September's industrial production was less than 80% of what it was at the peak of the last cycle. Two factors were primarily responsible for getting Japan out of the crisis in Q2. First, the country benefited from a recovery in international trade, especially with China. Moreover, public investment and consumer consumption, especially for durable goods, were stimulated by the Japanese government's recovery efforts.
- The situation for trade worsened last summer, instantly affecting the economic growth outlook. Japan's currency has appreciated, translating into a decrease in the value of exports and increase in the value of imports. An overly strong currency is a real problem for Japan, especially as it will be tough for domestic demand to hold up. The drop in business profit and surplus production capacity are reining in private investment. As for households, despite help from the government, consumption will continue to be impacted by the drop in income and insecure job market.
- This is fertile soil for deflation, which appears to have set in again, as the annual change in consumer prices excluding fresh food and energy has been in negative territory since the year began. In September, the annual contraction was at -1.0%, taking us closer and closer to the worst figures recorded in the early part of the decade. Under these circumstances, it will be hard for the BoJ to firm up its monetary policy. Moreover, the BoJ's balance sheet is now only 77% of what it was during the previous deflation period. Lastly, the yen's strength is firming up monetary conditions, in exchange, justifying greater monetary easing efforts to balance the situation out.

Forecasts: Although Japan is no longer officially in recession, this does not mean that the country is in an enviable economic situation. The recovery promises to be a long one and Japan is not out of the woods yet when it comes to deflation. The most likely scenario for the BoJ is no doubt a long period of low interest rates.

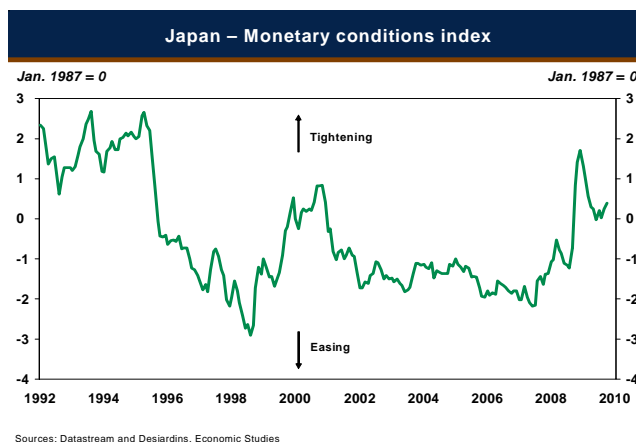
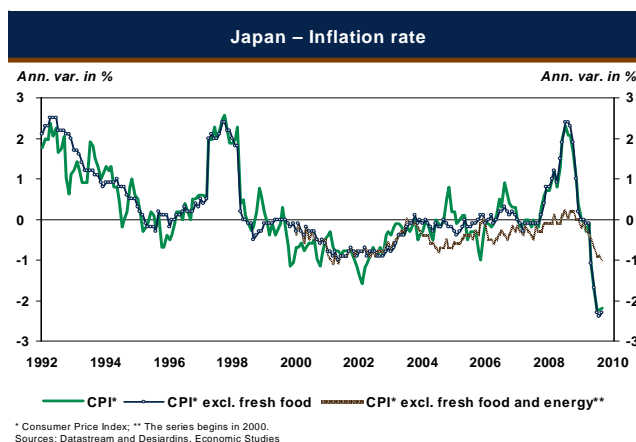
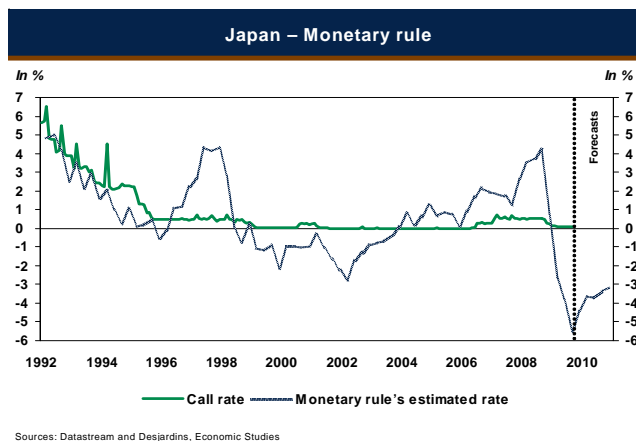


Table 1
Key interest rates

| End of period in % | 2008 | | | | 2009 | | | | 2010 | | | |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4f | Q1f | Q2f | Q3f | 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 | 0.50 | 1.00 |
| Canada | | | | | | | | | | | | |
| Overnight funds | 3.50 | 3.00 | 3.00 | 1.50 | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 1.00 |
| 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 | 1.00 | 1.50 |
| Japan | | | | | | | | | | | | |
| Overnight funds | 0.50 | 0.50 | 0.50 | 0.30 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

Table 2
Schedule and key rates

| Date | Central Bank | Decision | Rate |
|-----------------------|-----------------------------|----------|-------------|
| August 2008 | | | |
| 12 | Bank of Norway | s.q. | 1.25 |
| 12 | Federal Reserve | s.q. | 0.00 / 0.25 |
| 21 | Bank of Mexico | s.q. | 4.50 |
| September 2008 | | | |
| 1 | Reserve Bank of Australia | s.q. | 3.00 |
| 2 | Bank of Brazil | s.q. | 8.75 |
| 3 | European Central Bank | s.q. | 1.00 |
| 3 | Bank of Sweden | s.q. | 0.25 |
| 9 | Reserve Bank of New Zealand | s.q. | 2.50 |
| 10 | Bank of England | s.q. | 0.50 |
| 10 | Bank of Canada | s.q. | 0.25 |
| 16 | Bank of Japan | s.q. | 0.10 |
| 17 | Swiss National Bank | s.q. | 0.25 |
| 18 | Bank of Mexico | s.q. | 4.50 |
| 23 | Bank of Norway | s.q. | 1.25 |
| 23 | Federal Reserve | s.q. | 0.00 / 0.25 |
| October 2008 | | | |
| 5 | Reserve Bank of Australia | +25 b.p. | 3.25 |
| 8 | European Central Bank | s.q. | 1.00 |
| 8 | Bank of England | s.q. | 0.50 |
| 13 | Bank of Japan | s.q. | 0.10 |
| 16 | Bank of Mexico | s.q. | 4.50 |
| 20 | Bank of Canada | s.q. | 0.25 |
| 21 | Bank of Brazil | s.q. | 8.75 |
| 22 | Bank of Sweden | s.q. | 0.25 |
| 28 | Bank of Norway | +25 b.p. | 1.50 |
| 28 | Reserve Bank of New Zealand | s.q. | 2.50 |
| 29 | 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 |
|----------------------|-----------------------------|
| November 2009 | |
| 2 | Reserve Bank of Australia |
| 4 | Federal Reserve |
| 5 | European Central Bank |
| 5 | Bank of England |
| 19 | Bank of Japan |
| 27 | Bank of Mexico |
| 30 | Reserve Bank of Australia |
| December 2009 | |
| 3 | European Central Bank |
| 8 | Bank of Canada |
| 9 | Reserve Bank of New Zealand |
| 9 | Bank of Brazil |
| 10 | Bank of England |
| 10 | Swiss National Bank |
| 16 | Bank of Norway |
| 16 | Bank of Sweden |
| 16 | Federal Reserve |
| 17 | Bank of Japan |
| January 2010 | |
| 7 | Bank of England |
| 14 | European Central Bank |
| 19 | Bank of Canada |
| 25 | Bank of Japan |
| 27 | Reserve Bank of New Zealand |
| 27 | Federal Reserve |
| February 2010 | |
| 2 | Reserve Bank of Australia |
| 3 | Bank of Norway |
| 4 | European Central Bank |

Source: Desjardins, Economic Studies

**Table 4
United States: fixed income market**

| End of period in % | 2008 | | | | 2009 | | | | 2010 | | | |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4f | Q1f | Q2f | Q3f | 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 | 0.50 | 1.00 |
| Treasury bills | | | | | | | | | | | | |
| 3-month | 1.38 | 1.90 | 0.92 | 0.11 | 0.21 | 0.19 | 0.14 | 0.25 | 0.25 | 0.40 | 0.80 | 1.30 |
| Federal bonds | | | | | | | | | | | | |
| 2-year | 1.62 | 2.61 | 1.99 | 0.76 | 0.81 | 1.12 | 0.95 | 1.00 | 1.25 | 1.90 | 2.50 | 3.00 |
| 5-year | 2.47 | 3.33 | 2.98 | 1.55 | 1.68 | 2.56 | 2.31 | 2.45 | 2.65 | 3.10 | 3.40 | 3.60 |
| 10-year | 3.43 | 3.98 | 3.82 | 2.25 | 2.69 | 3.52 | 3.30 | 3.40 | 3.60 | 3.80 | 4.00 | 4.20 |
| 30-year | 4.30 | 4.53 | 4.30 | 2.69 | 3.57 | 4.31 | 4.05 | 4.30 | 4.50 | 4.60 | 4.70 | 4.75 |
| Yield curve | | | | | | | | | | | | |
| 5-year - 3-month | 1.09 | 1.43 | 2.06 | 1.44 | 1.47 | 2.37 | 2.17 | 2.20 | 2.40 | 2.70 | 2.60 | 2.30 |
| 10-year - 2-year | 1.81 | 1.36 | 1.84 | 1.49 | 1.88 | 2.40 | 2.35 | 2.40 | 2.35 | 1.90 | 1.50 | 1.20 |
| 30-year - 3-month | 2.92 | 2.63 | 3.38 | 2.58 | 3.36 | 4.12 | 3.91 | 4.05 | 4.25 | 4.20 | 3.90 | 3.45 |

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

**Table 5
Canada: fixed income market**

| End of period in % | 2008 | | | | 2009 | | | | 2010 | | | |
|--------------------------------|-------|-------|-------|------|------|-------|-------|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4f | Q1f | Q2f | Q3f | 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 | 0.50 | 1.00 |
| Treasury bills | | | | | | | | | | | | |
| 3-month | 1.88 | 2.50 | 1.90 | 0.89 | 0.40 | 0.25 | 0.23 | 0.30 | 0.35 | 0.45 | 0.80 | 1.30 |
| Federal bonds | | | | | | | | | | | | |
| 2-year | 2.63 | 3.25 | 2.79 | 1.09 | 1.07 | 1.21 | 1.26 | 1.50 | 1.70 | 2.10 | 2.60 | 3.05 |
| 5-year | 2.91 | 3.46 | 3.17 | 1.70 | 1.75 | 2.46 | 2.58 | 2.75 | 3.00 | 3.40 | 3.65 | 3.75 |
| 10-year | 3.43 | 3.74 | 3.76 | 2.69 | 2.78 | 3.36 | 3.31 | 3.50 | 3.70 | 3.90 | 4.00 | 4.10 |
| 30-year | 3.94 | 4.08 | 4.23 | 3.46 | 3.56 | 3.86 | 3.84 | 4.10 | 4.35 | 4.50 | 4.55 | 4.55 |
| Yield curve | | | | | | | | | | | | |
| 5-year - 3-month | 1.03 | 0.96 | 1.27 | 0.81 | 1.35 | 2.21 | 2.35 | 2.45 | 2.65 | 2.95 | 2.85 | 2.45 |
| 10-year - 2-year | 0.80 | 0.49 | 0.97 | 1.60 | 1.71 | 2.15 | 2.05 | 2.00 | 2.00 | 1.80 | 1.40 | 1.05 |
| 30-year - 3-month | 2.06 | 1.58 | 2.33 | 2.57 | 3.16 | 3.61 | 3.61 | 3.80 | 4.00 | 4.05 | 3.75 | 3.25 |
| Spreads (Canada - U.S.) | | | | | | | | | | | | |
| 3-month | 0.50 | 0.60 | 0.98 | 0.78 | 0.19 | 0.06 | 0.09 | 0.05 | 0.10 | 0.05 | 0.00 | 0.00 |
| 2-year | 1.01 | 0.63 | 0.80 | 0.32 | 0.27 | 0.09 | 0.31 | 0.50 | 0.45 | 0.20 | 0.10 | 0.05 |
| 5-year | 0.44 | 0.13 | 0.19 | 0.15 | 0.07 | -0.10 | 0.26 | 0.30 | 0.35 | 0.30 | 0.25 | 0.15 |
| 10-year | 0.00 | -0.24 | -0.07 | 0.44 | 0.09 | -0.16 | 0.00 | 0.10 | 0.10 | 0.10 | 0.00 | -0.10 |
| 30-year | -0.36 | -0.45 | -0.07 | 0.76 | 0.00 | -0.45 | -0.21 | -0.20 | -0.15 | -0.10 | -0.15 | -0.20 |

f: forecasts

Sources: Datastream and Desjardins, Economic Studies