



Hard for the Federal Reserve to raise interest rates in a jobless recovery

HIGHLIGHTS

- Although we are sceptical about the need to keep interest rates at “depression scenario” levels over an undetermined period, a study of prior episodes suggests that the risks are clearly tilted toward key rates being raised later rather than earlier.
- The economic recovery’s underpinnings are not yet strong enough to justify initiating monetary firming. The Fed should remain cautious and keep its key rates unchanged until at least the last quarter of 2010.
- As the Federal Reserve does not seem to be in any rush to raise interest rates, subdued inflation should allow ten-year rates to remain in a tight band (between 3.20% and 3.60%) until the end of the winter, with a substantial risk that they will cross below the lower bound.
- 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.

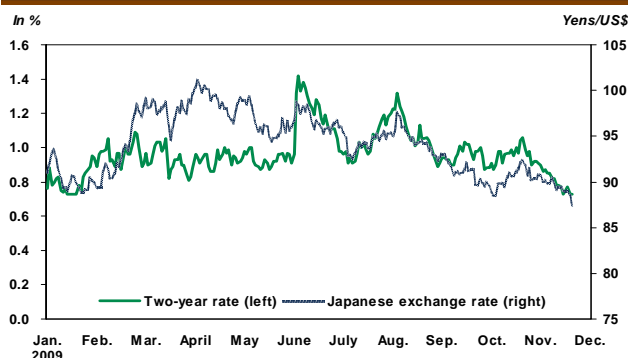
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Summary

The bond market has continued to benefit from recent events. In the year-end environment, demand for U.S. Treasury securities has been unrelenting, causing rates for 10-year T-notes to converge, as predicted, on the lower bound of our autumn fluctuation band, set at 3.25% to 3.75%. However, the surprise in recent weeks came from the short end of the curve, where 2-year rates dipped to 0.67%, their lowest point of the year (graph 1). At these levels, the short end of the curve is not appealing; however, the economic and financial context remains conducive to keeping longer-term rates low.

Graph 1 – No interest rate increases in sight, no support for the greenback



Sources: Datastream and Desjardins, Economic Studies

The minutes of the November 3-4 FOMC meeting revealed that there now seems to be a consensus at the Federal Reserve (Fed) about a jobless recovery. However, various statements from monetary authorities are still diverging as to the need to raise interest rates sooner or later or to be clearer about exit strategies. In particular, remarks from the President of the St. Louis Federal Reserve to the effect that, based on an analysis of prior episodes, the Fed could leave its rates where they are until 2012, had a biting impact on the bond market. Although James Bullard’s remarks do not constitute a

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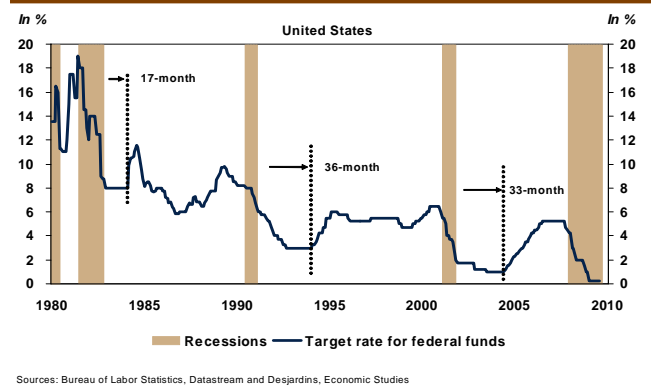
commitment from the FOMC—Bullard is not currently a voting member, although he will be in 2010—we are going over the factors that have previously prompted the Fed to begin a monetary firming cycle.

END OF 2010, BEGINNING OF 2011 OR... 2012?

Economic cycles are rarely identical, but history can sometimes act as a guide to the future. Although we are sceptical about the need to keep interest rates at “depression scenario” levels over an undetermined period, a study of prior episodes suggests that the risks are clearly tilted toward key rates being raised later rather than earlier.

First, we look at the Fed’s prior behaviour during a recovery period. Judging from the real GDP’s 2.8% rebound in Q3 of 2009, the Great Recession likely ended last summer. However, this should not prod the Fed to normalize interest rates any time soon. Excluding the 1980 recession, in which interest rates were raised precipitously to combat runaway inflation, the last few recessions show that the Fed has taken an average of just over two years after a recession ended to start a monetary firming cycle (graph 2).

Graph 2 – The Fed does not rush into raising its key rates at the end of a recession

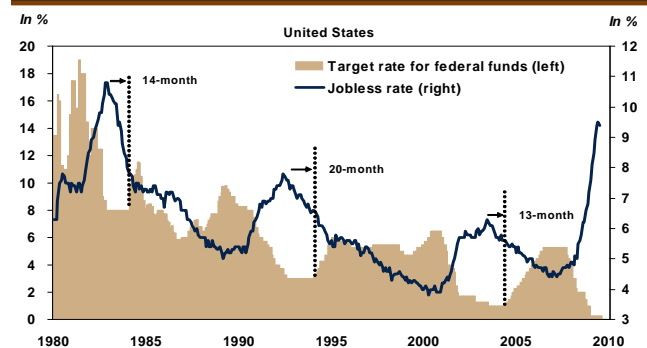


Sources: Bureau of Labor Statistics, Datastream and Desjardins, Economic Studies

We must also consider the Fed’s mandate, which is to foster full employment while maintaining price stability. Here, the employment market’s deterioration seems to be easing off, but the jobless rate is expected to climb above 10.5% in the first half of 2010, its highest level since 1983 (at that time, unemployment had reached a post-war peak of 10.8%). With economic growth forecast to be modest and a high productivity rate, the hiring cycle promises to be fairly soft. Previous episodes have shown that the Fed tends to wait at least 12 months after the jobless rate crests before raising its key rate (graph 3).

Then come the inflation pressures that subtend economic activity. Given that monetary policy has a lagged impact on economic cycles, theory tells us that central banks will have

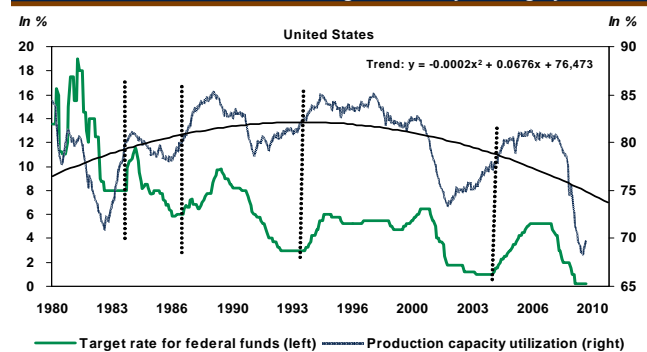
Graph 3 – The Fed does not usually raise its rates until the employment market improves substantially



Sources: Bureau of Labor Statistics, Datastream and Desjardins, Economic Studies

to raise their interest rates sooner rather than later, to keep the economy from overheating and stave off inflation pressures. Prior episodes, however, show that the Fed has opted to wait for the situation to normalize before proceeding with its first rate hikes (graph 4). With the destruction of production capacity in a number of the U.S. economy’s sectors, including the auto sector and financial engineering, the level of potential real GDP has likely declined, but the output gap is still large and will take several quarters to close completely.

Graph 4 – The Fed prefers to make sure the situation is getting back to normal before starting a monetary firming cycle



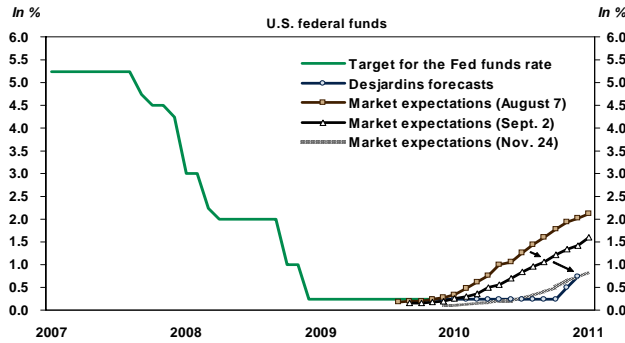
Sources: Bureau of Labor Statistics, Datastream and Desjardins, Economic Studies

RISK OF LONG-TERM INFLATION?

Under these conditions, it seems clear that those who are expecting imminent interest rate increases will be disappointed (graph 5 on page 3).

However, we should not jump to the conclusion that the Fed will have the option to wait one or two years before initiating its monetary firming cycle. While acknowledging that raising rates too quickly could short-circuit or postpone a private sector recovery, these low interest rates call for some caution. For now, the work monetary authorities are doing is credible and inflation expectations remain anchored, but some Fed

Graph 5 – The market’s expectations are now more in line with our own projections



Sources: Bloomberg and Desjardins, Economic Studies

members note that there is a major risk in keeping interest rates at “zero” for an extended period.

“[There is a] possibility that some negative side effects might result from the maintenance of very low short-term interest rates for an extended period, including the possibility that such a policy stance could lead to excessive risk-taking in financial markets or an unanchoring of inflation expectations. While members currently saw the likelihood of such effects as relatively low, they would remain alert to these risks.”

Minutes of the meeting of November 3-4, 2009

For Jeff Lacker, President of the Richmond Fed, the risk is particularly worrisome given the unprecedented expansion of bank reserves and market concerns as to the Fed’s ability to unwind them at the appropriate time. He adds: “if we hope to keep inflation in check, we cannot be paralyzed by patches of lingering weakness, which could persist well into the recovery.”

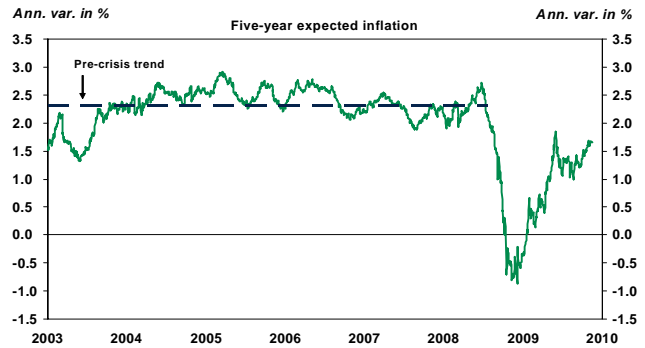
In a recently released study¹, however, we show that the inflation risks associated with bank reserves are limited. Firstly, the central banks have the tools they need to unwind the impacts of quantitative easing if necessary. Moreover, the fact is that inflation risks will only arise if commercial banks were disposed to do more lending. This situation, which is characterized by deleveraging, is not conducive to greater lending by banks.

Expected inflation, which is derived from the spread between Treasury securities and real return bonds, corrected upward

¹ See the November 20, 2009 issue of *Economic Viewpoint*, “Exit strategies for central banks – How can monetary inflation be avoided?”.

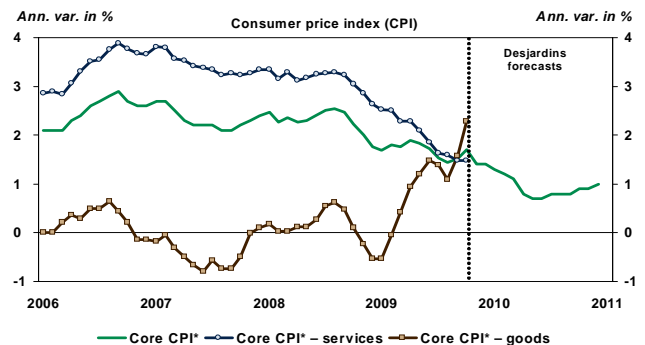
in 2009 after having felt the impacts of the liquidity crunch that occurred at the end of last year (graph 6). But it is still below the average for the last few years, signalling that the inflation threat is still not dominating the markets. In our opinion, the risk of disinflation is still greater in the short term. Non-energy inflation showed a surprise increase in October, but the trend is still downward and the annual change should drop below 1.0% in 2010 (graph 7).

Graph 6 – Inflation expectations remain well anchored in the United States



Sources: Bloomberg and Desjardins, Economic Studies

Graph 7 – Despite October’s unexpected increase in goods prices, core inflation is on a down trend



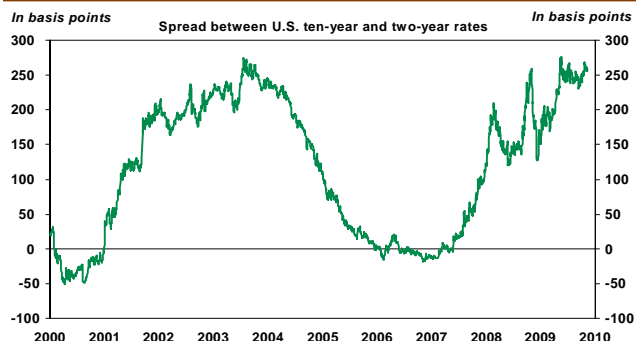
* Total CPI ex-food and ex-energy. Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

FLATTENING OF THE CURVE

The drop by two-year rates drove the spread with ten-year Treasuries up to almost 266 basis points, the highest level since last July (graph 8 on page 4). At these historic levels, it seems logical to expect the yield curve to flatten. Of course, it will only flatten substantially when the jobless rate crests², which would prompt a substantial bond market dip in the short portion of the curve. However, given the uncertainty about the magnitude of the economic recovery, pressure will remain to the downside on rates on T-notes.

² See the August 31, 2009 issue of *The Yield Curve*, “The stock market is climbing, but demand for Treasuries stays strong. Odd? Not really!”.

Graph 8 – A rally in the long end of the curve should make the slope flatten



Sources: Datastream and Desjardins, Economic Studies

As the Fed does not seem to be in any rush to raise interest rates, subdued inflation should allow ten-year rates to remain in a tight band (between 3.20% and 3.60%) until the end of the winter, with a substantial risk that they will cross below the lower bound (graph 9).

Graph 9 – Pressure on ten-year rates is still downward



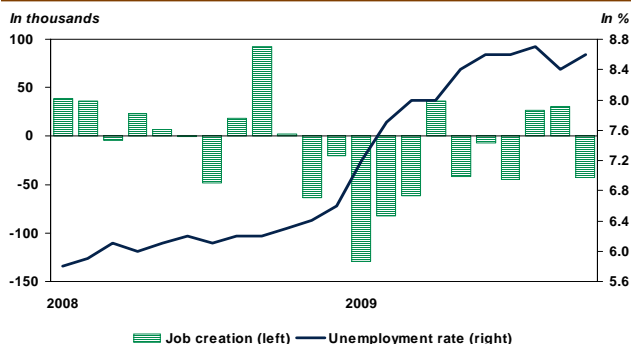
Sources: Datastream and Desjardins, Economic Studies

THE BANK OF CANADA'S HANDS ARE TIED

As we expected, the Canadian bond market shot up in the last few weeks. The more than 50 basis point rise by two-year bond rates in early October was completely wiped out, taking rates close to 1.1%. Weaker economic data than anticipated, including October's unexpected drop in employment (graph 10), had a hand in this correction. But the real blow was delivered by Bank of Canada (BoC) concerns about the loonie's strength. In a recent statement, BoC Governor Mark Carney noted:

“We do see a risk that a stronger-than-assumed Canadian dollar, driven by global portfolio movements out of U.S.-dollar assets, could act as a significant further drag on growth and put additional downward pressure on inflation.”

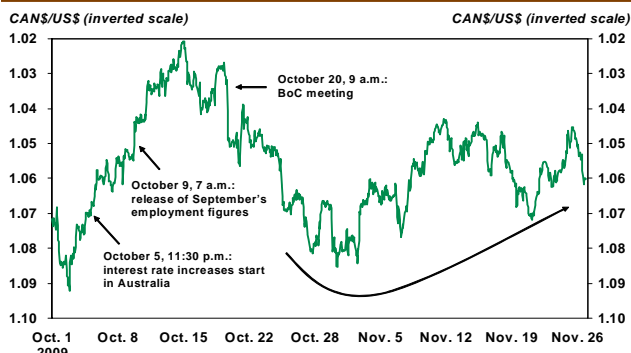
Graph 10 – The Canadian employment gains made in August and September were almost wiped out in October



Sources: Statistics Canada and Desjardins, Economic Studies

As the BoC is not showing any conviction about the need to resort to quantitative policies at this stage of the recovery, we are wondering about the BoC's ability to actually contain the upward pressures on the loonie, which stem from the greenback's generalized weakness, the resulting rise by commodity prices, and expectations of interest rate hikes (graph 11).

Graph 11 – The BoC seems to be short on ways to keep the loonie from appreciating



Sources: Bloomberg and Desjardins, Economic Studies

Under these conditions, it would be surprising to see the BoC seek to modify its monetary policy before the second half of 2010. In our opinion, the message Canada's monetary authorities are delivering will not change until the Fed has opened the door to potential interest rate increases.

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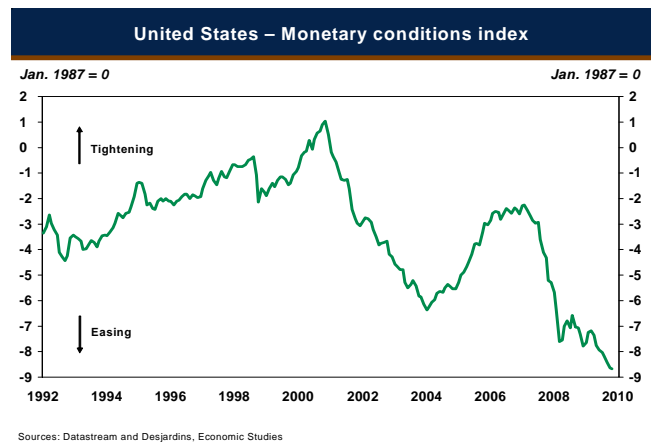
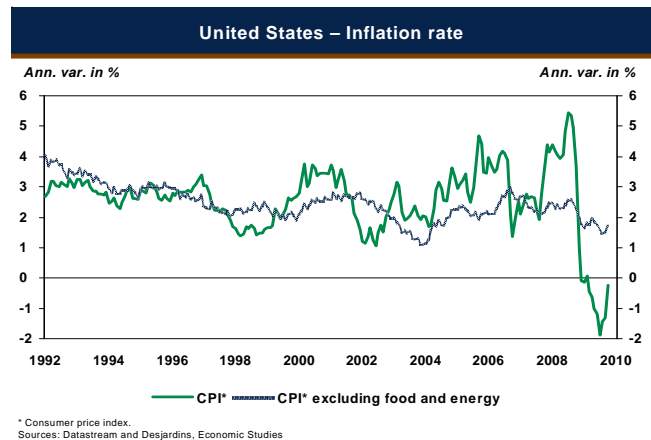
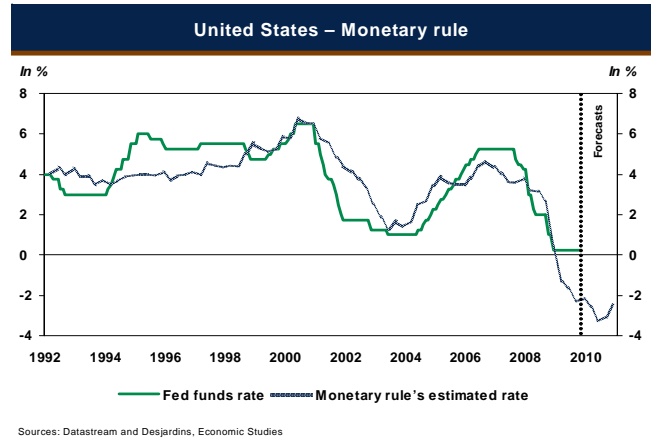
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FEDERAL RESERVE

The Federal Reserve does not seem to be in a hurry to raise its key rates

- Although some statistics have been fairly disappointing lately, the U.S. economy is slowly moving away from last spring's trough. However, weak consumer confidence, the drop in manufacturing output, pullback by housing starts, increase in the jobless rate and shaky rise by home prices indicate that the recovery's underpinnings remain vulnerable.
- Federal Reserve (Fed) leaders are aware of both the improved economic situation and the recovery's fragility. The minutes of the last Fed monetary policy committee meeting mention that Fed leaders expect the recovery to continue, but at a slower pace than seen in previous recovery episodes. They add that a slow recovery would mean a small improvement in the job market. Over the medium range, the underutilization of production capacity should keep inflation moderate. That is also what emerges from our economic forecasts.
- Core inflation, which excludes food and energy, is taking its time about slowing, however. The stability comes from goods prices, although services, particularly housing, are in fact moderating. Core inflation should still drop below 1% in 2010. More subject to energy price volatility, total inflation should shift from a drop of 0.3% in 2009 to a rise of 2.2% in 2010.
- These inflation forecasts should not worry Fed leaders. On the contrary, combined with the economic forecasts, they mean that the monetary rule continues to suggest highly accommodative monetary policy.
- To shake Fed leaders' will to maintain "exceptionally low levels of the federal funds rate for an extended period", inflation expectations would have to come "unanchored." However, there is little concern about that: surveys of households and professionals remain stable. Even implicit inflation according to real return bonds seems to have reached a moderate plateau.
- In fact, the Fed's main source of concern is the weakness in credit. In a recent speech, Bernanke presented bank credit as a factor that was impeding more robust economic growth. According to the latest quarterly report by the Federal Deposit Insurance Corporation, bank loans fell 2.8% in the third quarter of 2009, the biggest contraction since 1984.

Forecasts: The economic recovery's underpinnings are not yet strong enough to justify initiating monetary firming. The Fed should remain cautious and keep its key rates unchanged until at least the last quarter of 2010.

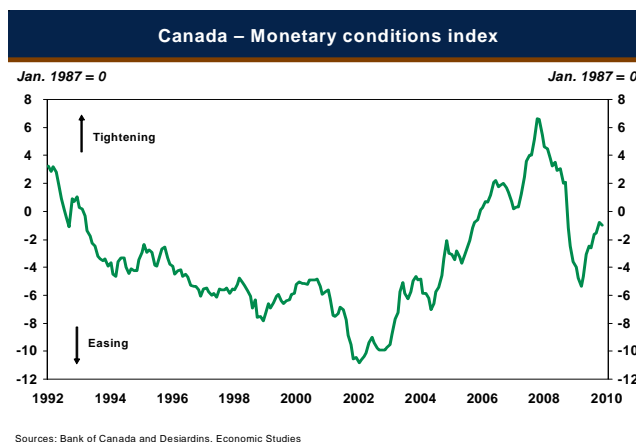
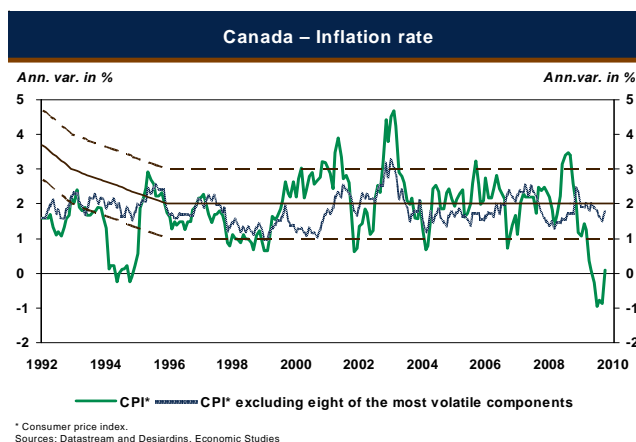
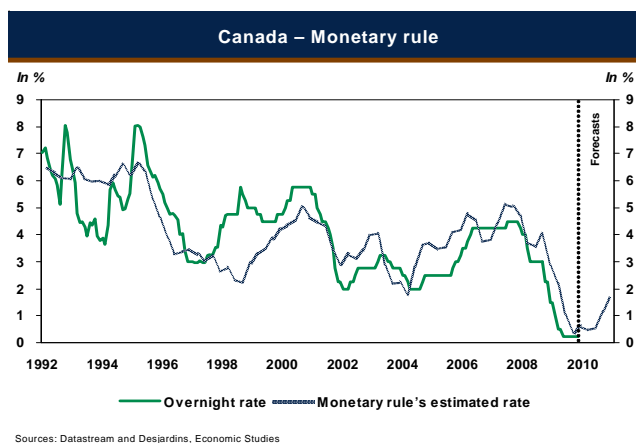


BANK OF CANADA

The Bank of Canada's hands are tied

- The Bank of Canada (BoC) left its key interest 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.
- The data released to date shows that the Canadian economy's output continued to retreat slightly last summer. Real GDP by industry ticked down by 0.03% in July and 0.11% in August. However, some of the results released recently show that September's real output rose slightly.
- Domestic demand is showing signs of improvement. Consumer spending is being boosted by a comeback by auto sales, as well as by a widespread rise in consumer confidence. Residential investment continues to rise, with the number of starts going to 157,300 units in October, the highest point since the end of 2008. Lastly, government spending seems to be accelerating, as recovery plans start to bear fruit. Canada's economy is, however, still being dragged down by a major deterioration in the trade balance. In real terms, the merchandise trade balance stands at -\$18.5B in 2002 dollars in the third quarter compared with -\$13.4B in 2002 dollars the quarter before.
- 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. Mark Carney, the BoC Governor, even had put forward his doubts about the BoC's 2.0% GDP growth forecast for the third quarter.
- At 0.1% in October, the total inflation rate is back in the black, putting an end to four declining months. The upswing had been expected; it can be chalked up to the waning impact of prior energy price declines. The phenomenon should continue in the months to come.
- The monetary authorities will, however, focus on what core inflation is doing. The annual change in the CPI has stayed in the 1.5% to 2.0% range since the year began. Some downside pressures should soon start to materialize due to the lagged impact of the recession.

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.

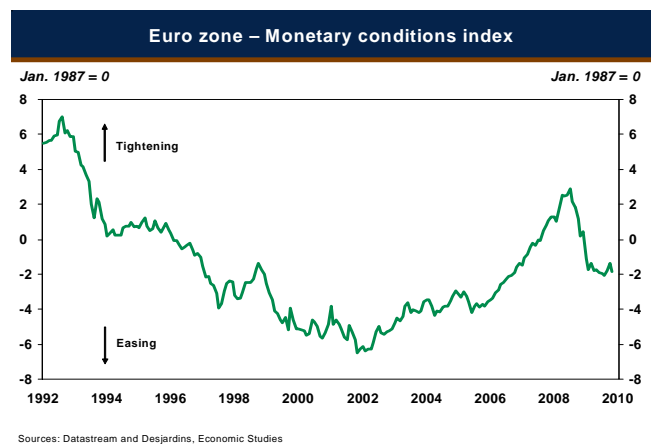
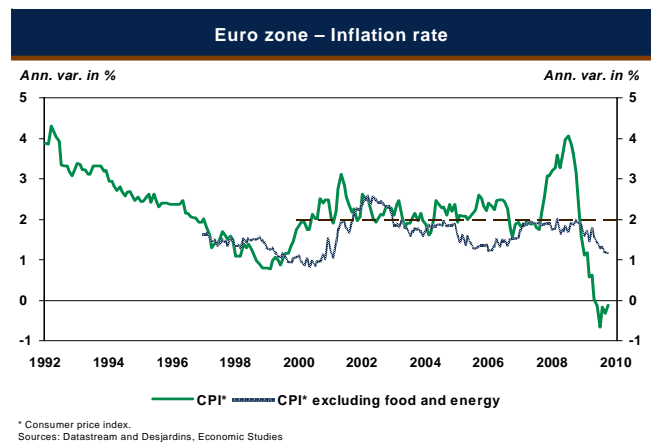
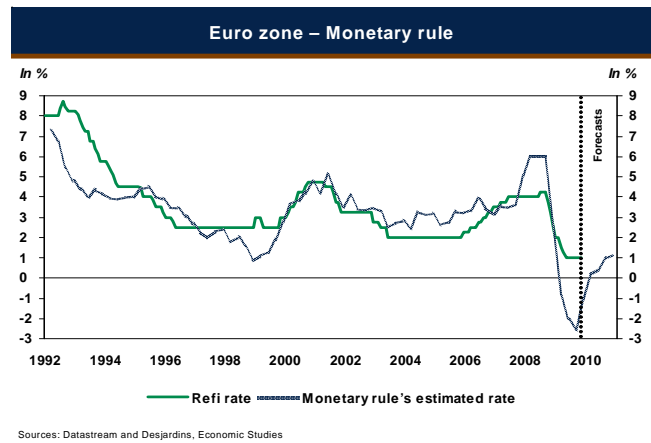


EUROPEAN CENTRAL BANK

The European Central Bank begins to gradually rein in its extraordinary measures

- Once again, the European Central Bank (ECB) opted for the status quo at November's meeting. The ECB's key rate has been at 1.00% since last May and nothing augurs any change in the coming months. Our monetary rule still indicates that substantially lower rates would be appropriate, and this could sooner or later hinder the Euroland economy's recovery. Given its slightly higher key rate and the euro's strength, monetary conditions in the euro zone are much less expansionary than they are in the United States and United Kingdom.
- At its November meeting, the ECB took a slightly more upbeat tone. It is still calling for a slow recovery, but it dropped the sentence that indicated it was expecting an uneven recovery. President Jean-Claude Trichet also clearly opened the door to gradually reducing the extraordinary liquidity measures, saying he did not want to alter the market's perception that 12-month refinancing operations would no longer be offered next year. He was even clearer in a recent speech in Spain: "As regards our non-standard measures, as the situation returns to more normal times, the focus on the medium term calls for a gradual and timely phasing out of these measures." An announcement has already been made that the criteria for accepting asset-backed securities (ABSs) as collateral would be tightened.
- The ECB's greater optimism could seem justified, at first glance, given that Euroland's economy emerged from recession in the third quarter, with annualized real GDP growth of 1.5% in the zone. Growth could continue in the coming quarters, but the recovery promises to be sluggish. Retail sales pulled back again in September and the jobless rate continues to rise. Over the medium range, the required adjustments to balance sheets, in the financial sector, among others, and fiscal policy that will have to be substantially reined in, sooner or later, could put the brakes on growth. Inflation should therefore remain low.

Forecasts: While other central banks remain concerned about the risks to the economy and financial system, the ECB now seems to be focusing on exit strategies. It would not be surprising for some of the leaders who are most dogmatic on inflation, including Bundesbank President Axel Weber, to soon start to want a key rate increase. However, soft inflation pressures and the substantial risks that are still weighing on Euroland's economy should convince the ECB to opt for the status quo until at least mid-2010.

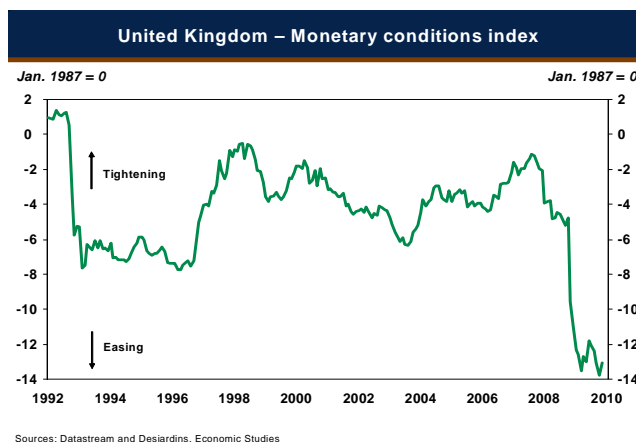
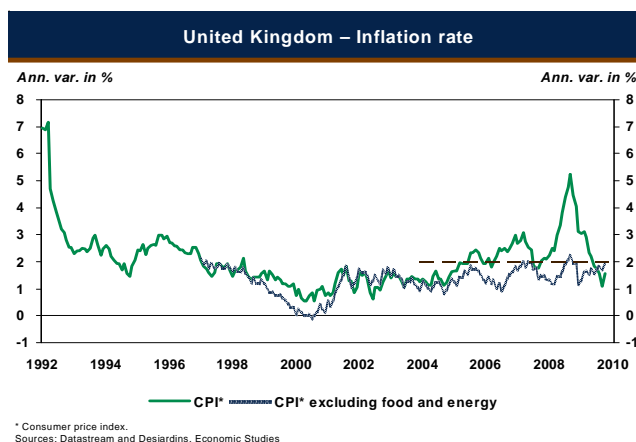
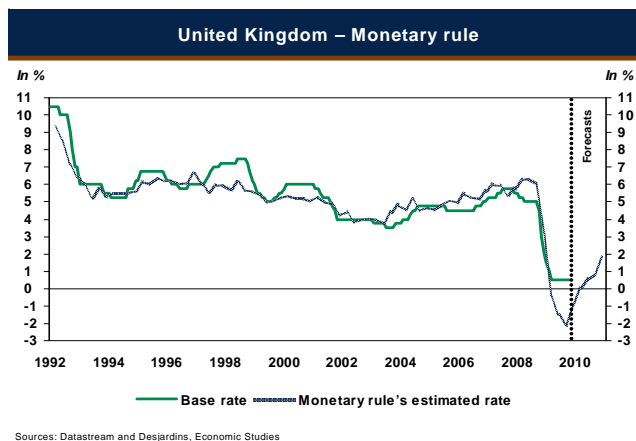


BANK OF ENGLAND

The Bank of England opts to expand its quantitative measures slightly

- The financial markets had been eagerly awaiting November's Bank of England (BoE) meeting. There was no doubt that the key rate would stay at 0.50%. However, as the £175B (US\$289B) asset purchase program was over, a decision as to whether or not to further expand the quantitative easing measures could no longer be put off. Some disappointing economic statistics, including the continuing recession in the United Kingdom in the third quarter, had prompted a slight majority of analysts to expect the quantitative measures to be bumped up by another £50B (US\$83B). The BoE finally opted to increase its program by a smaller amount, £25B (US\$41B).
- The meeting's minutes showed that the BoE decision was not unanimous. One of the Monetary Policy Committee members was in favour of a more substantial increase in the quantitative measures, deeming that it was too early to start slowing the pace on purchases. Conversely, another member voted not to expand the program, deeming that monetary policy was already extraordinarily expansionary and fearing that further purchases would lead to an exaggerated increase in the price of some assets.
- Despite the British's economy's Q3 pullback, November's *Inflation Report* contained an upbeat economic scenario, which stated that Britain's real GDP growth would accelerate to around 4%, on an annualized basis, at the end of 2010. Note that more and more statistics suggest that the British economy is poised to return to growth, if it has not already done so. However, the encouraging economic outlooks published in the report were offset by highly dovish remarks from Governor Mervyn King. According to King: "The big picture is a very sharp fall in the level of output, and it will take a long time to recover that." The BoE expects the inflation rate to surge in the next few months, crossing above the 2% target, reflecting the increase in oil prices and end of the temporary cut to the consumption tax. Inflation has already gone from 1.1% in September to 1.5% in October. These short-term movements are not important to monetary policy, however, and the BoE deems that, for the next three years, the risk is that inflation will be below target.

Forecasts: The BoE made a reasonable decision when it increased its quantitative measures moderately in November. Despite an official scenario that calls for the British economy to make a lively recovery, comments by Governor King show that it is still much too early to consider raising key rates in the United Kingdom.



BANK OF JAPAN

The monetary authorities must once again battle deflation

- For the second time in less than a decade, the Bank of Japan (BoJ) must wrestle with deflation. At its last meeting on November 20, the BoJ opted for the status quo, keeping its primary key interest rate steady at close to 0%. Moreover, no complementary measures were announced. The existing measures seem to be enough to get the financial markets and Japan's economy back on their feet, but a full remission should still take several quarters and demand a prolonged effort from the monetary authorities.
- After posting the worst economic contraction among G7 nations, Japan has recorded two consecutive quarters of strong growth. These promising results essentially stem from foreign demand stimulated by intervention by numerous governments and central banks around the world, as well as domestic demand buoyed by Japan's own recovery measures. Private investment did not follow this trend, due to low corporate profits and elevated excess production capacity.
- The pace at which Japan's economy is growing should slow in the coming quarters. Aside from investment, which should remain scarce, the impact of government recovery plans should gradually fade. Consumption will lose an important pillar, when it is still being affected by the drop in workers' incomes and by a job market that is still struggling, even though the jobless rate declined recently. It will take a few quarters before the comeback by global trade translates into a clear improvement in the situation of Japanese households.
- This is still fertile soil for deflation. In October, the annual change in consumer prices was -2.5%. The BoJ notes that these figures mainly result from the drop in commodity prices from last year. However, even when fresh food and energy are excluded, the annual change in prices is -1.1%, which is equivalent to the worst figures recorded in the early part of this decade. Under the circumstances, it will be hard for the BoJ to firm up its monetary policy. More aggressive intervention may be needed, even though, for now, there does not seem to be any real openness to this option. The yen's strength, which is translating into marked firming of monetary conditions, could eventually tip the scales.

Forecasts: Japan's economy remains in a precarious situation. The recovery promises to be long and deflation should give monetary authorities something to grapple with, particularly as there is now a risk that inflation expectations will adjust downward. The most likely scenario for the BoJ is no doubt a long period of low interest rates.

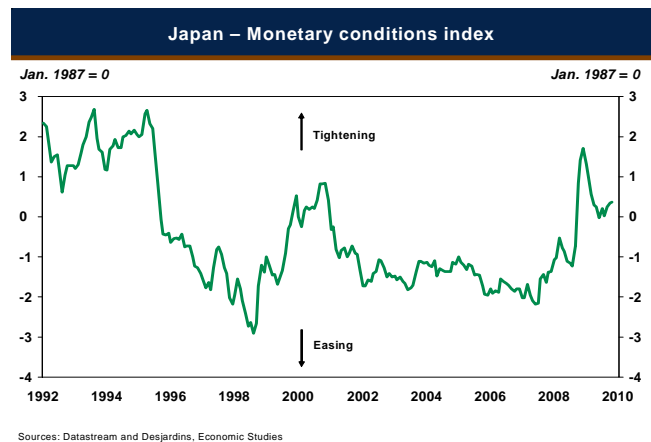
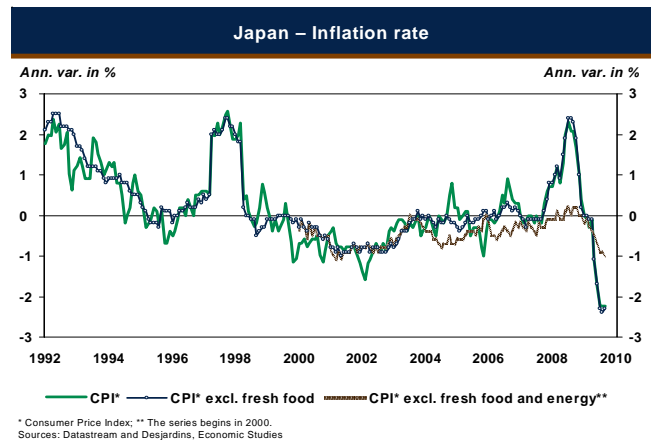
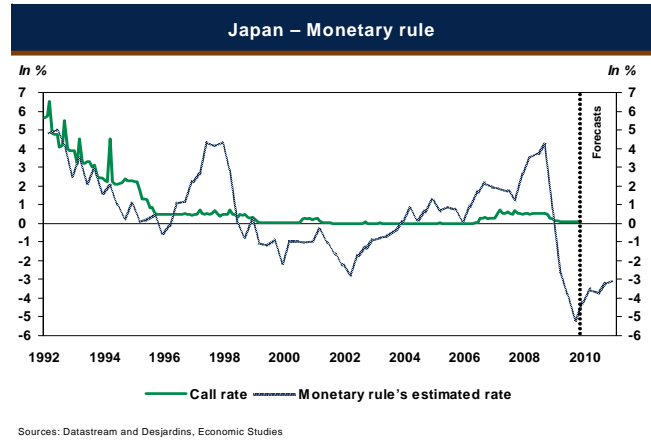


Table 1
Key interest rates

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	0.25	0.75
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	0.75
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
September 2008			
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
November 2008			
2	Reserve Bank of Australia	+25 b.p.	3.50
4	Federal Reserve	s.q.	0.00 / 0.25
5	European Central Bank	s.q.	1.00
5	Bank of England	s.q.	0.50
19	Bank of Japan	s.q.	0.10
27	Bank of Mexico	s.q.	4.50
30	Reserve Bank of Australia	+25 b.p.	3.75

s.q.: status quo; b.p. : basis points

Source: Desjardins, Economic Studies

Table 3
Coming soon

Date	Central Bank
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
15	Bank of Mexico
19	Bank of Canada
25	Bank of Japan
27	Reserve Bank of New Zealand
27	Bank of Brazil
27	Federal Reserve
February 2010	
2	Reserve Bank of Australia
3	Bank of Norway
4	European Central Bank
4	Bank of England
10	Bank of Sweden
17	Bank of Japan
19	Bank of Mexico
March 2010	
2	Reserve Bank of Australia

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	0.25	0.75
Treasury bills												
3-month	1.38	1.90	0.92	0.11	0.21	0.19	0.14	0.10	0.25	0.25	0.40	0.90
Federal bonds												
2-year	1.62	2.61	1.99	0.76	0.81	1.12	0.95	0.90	1.00	1.25	1.85	2.60
5-year	2.47	3.33	2.98	1.55	1.68	2.56	2.31	2.15	2.40	2.75	3.15	3.60
10-year	3.43	3.98	3.82	2.25	2.69	3.52	3.30	3.30	3.40	3.60	3.85	4.05
30-year	4.30	4.53	4.30	2.69	3.57	4.31	4.05	4.30	4.40	4.50	4.60	4.70
Yield curve												
5-year - 3-month	1.09	1.43	2.06	1.44	1.47	2.37	2.17	2.05	2.15	2.50	2.75	2.70
10-year - 2-year	1.81	1.36	1.84	1.49	1.88	2.40	2.35	2.40	2.40	2.35	2.00	1.45
30-year - 3-month	2.92	2.63	3.38	2.58	3.36	4.12	3.91	4.20	4.15	4.25	4.20	3.80

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	0.25	0.75
Treasury bills												
3-month	1.88	2.50	1.90	0.89	0.40	0.25	0.23	0.30	0.30	0.30	0.45	0.90
Federal bonds												
2-year	2.63	3.25	2.79	1.09	1.07	1.21	1.26	1.20	1.30	1.45	1.95	2.70
5-year	2.91	3.46	3.17	1.70	1.75	2.46	2.58	2.40	2.65	2.95	3.35	3.75
10-year	3.43	3.74	3.76	2.69	2.78	3.36	3.31	3.30	3.40	3.55	3.75	3.90
30-year	3.94	4.08	4.23	3.46	3.56	3.86	3.84	3.90	4.00	4.10	4.15	4.20
Yield curve												
5-year - 3-month	1.03	0.96	1.27	0.81	1.35	2.21	2.35	2.10	2.35	2.65	2.90	2.85
10-year - 2-year	0.80	0.49	0.97	1.60	1.71	2.15	2.05	2.10	2.10	2.10	1.80	1.20
30-year - 3-month	2.06	1.58	2.33	2.57	3.16	3.61	3.61	3.60	3.70	3.80	3.70	3.30
Spreads (Canada - U.S.)												
3-month	0.50	0.60	0.98	0.78	0.19	0.06	0.09	0.20	0.05	0.05	0.05	0.00
2-year	1.01	0.63	0.80	0.32	0.27	0.09	0.31	0.30	0.30	0.20	0.10	0.10
5-year	0.44	0.13	0.19	0.15	0.07	-0.10	0.26	0.25	0.25	0.20	0.20	0.15
10-year	0.00	-0.24	-0.07	0.44	0.09	-0.16	0.00	0.00	0.00	-0.05	-0.10	-0.15
30-year	-0.36	-0.45	-0.07	0.76	0.00	-0.45	-0.21	-0.40	-0.40	-0.40	-0.45	-0.50

f: forecasts

Sources: Datastream and Desjardins, Economic Studies