

Although it seems overvalued, the bond market could continue to perform well in the near term

The central banks will maintain extremely stimulating monetary policies

HIGHLIGHTS

- Although we cannot deny that the economic context is currently favourable to the bond market, it does not justify rates below or close to the rates seen at the peak of the last recession. Other factors are currently swelling demand for Treasuries.
- The recent pullback in bond rates is partly based on the Federal Reserve's decision to maintain its domestic security holdings.
- Statements from the other major central banks clearly show concern about the future of the economic recovery. This should translate into stable key rates for several more quarters.
- The Bank of Canada (BoC) cannot overlook the upswing of international risks. After a third increase on September 8, the BoC should start a pause of about six months.

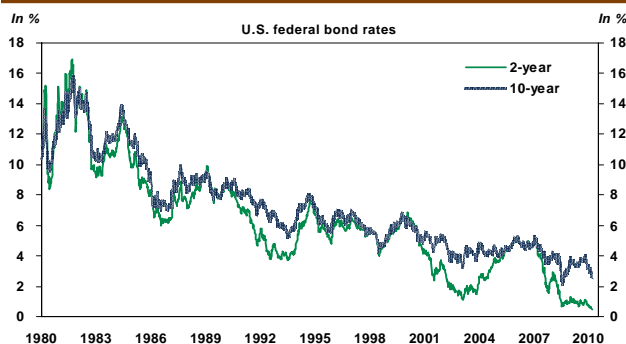
CONTENTS

Summary	1
Monetary Policy	
Federal Reserve	5
Bank of Canada	6
European Central Bank	7
Bank of England	8
Bank of Japan	9
Tables	10-11

Summary

The bond market continued its excellent performance in the last few weeks. Disappointing economic statistics in the United States and a change in stance by the Federal Reserve (Fed), which many read as a signal that it shared the markets' fears about a relapse into recession or period of deflation, drove the U.S. 2-year rate to a record low of 0.45% on August 24. Long-term rates also continued to slide, with the rate on 10-year Treasuries temporarily dipping under 2.50% (graph 1). The major gains were not limited to U.S. federal securities. Investors' preference for the bond market pulled rates down worldwide (graph 2 on page 2).

Graph 1 – U.S. bond rates at or close to historic lows



Sources: Datastream and Desjardins, Economic Studies

Unlike what happened during the recent financial crisis, the pullback of rates since the end of July occurred against a backdrop of easing financial strain (graph 3 on page 2). The better economic statistics published in Europe and the release of the stress tests substantially subdued doubts about the strength of Europe's financial system. As financial strains did not intensify in the last few weeks, most of the rate spreads

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

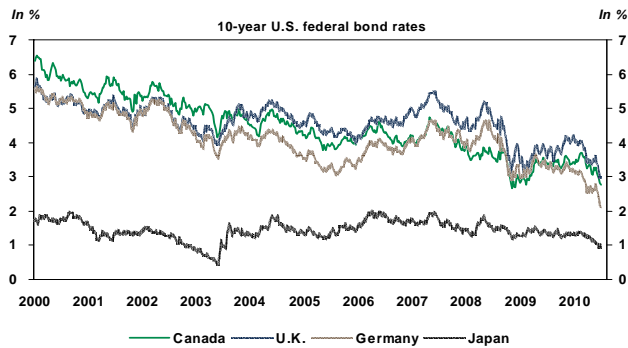
Hendrix Vachon
Senior Economist

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

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

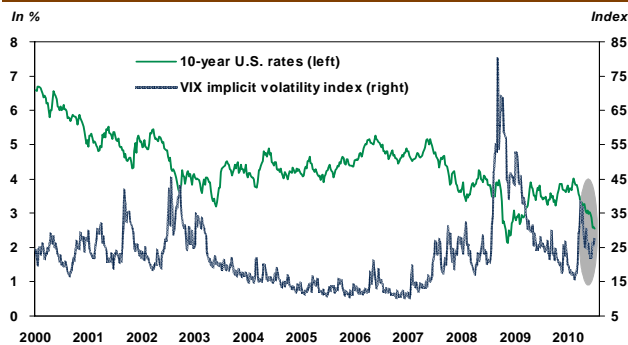
IMPORTANT: This document is based on public information, obtained from sources that are deemed to be reliable. Desjardins Group in no way guarantees that the information is complete or accurate. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. The document may under no circumstances be construed as a commitment by Desjardins Group, which takes no responsibility for the consequences of any decision made based on the information herein. The prices and rates shown are for information purposes only as they may change at any time based on market conditions. Past returns are no guarantee of future performance, and Desjardins Group does not hereby purport to provide any investment advice. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the official position of Desjardins Group. Copyright © 2010, Desjardins Group. All rights reserved.

Graph 2 – Bond rates declining globally as well



Sources: Datastream and Desjardins, Economic Studies

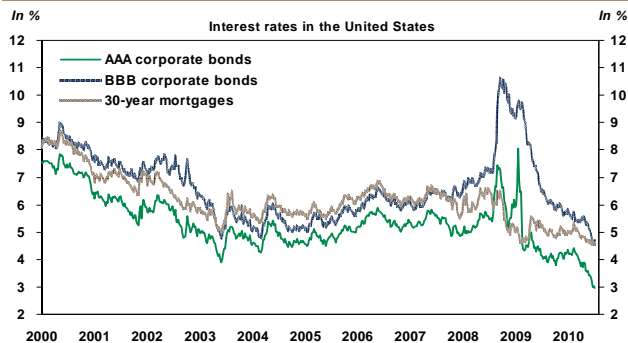
Graph 3 – Bond rates continued to fall this summer despite easing financial tensions



Sources: Datastream and Desjardins, Economic Studies

did not widen much and the pullback by rates on federal bonds took all interest rates down. For both consumers and business, financing costs are currently low (graph 4).

Graph 4 – Weak interest rates also bode well for the private sector



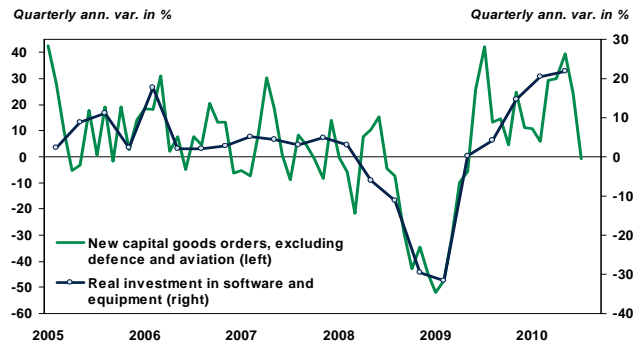
Sources: Datastream and Desjardins, Economic Studies

SOME SIGNS OF A BOND BUBBLE

The release of disappointing economic statistics in the United States was a big contributor to the bond market's strong performance since summer began. After getting the year off to a good start, the U.S. economy is showing clear

signs of flagging. Real GDP growth was just 1.6% in the second quarter and everything suggests that consumption, housing and the job market will continue to stumble for several quarters to come. For business, the situation is more encouraging, but the latest indicators signal that investment could slow after posting strong growth in the first half of the year (graph 5).

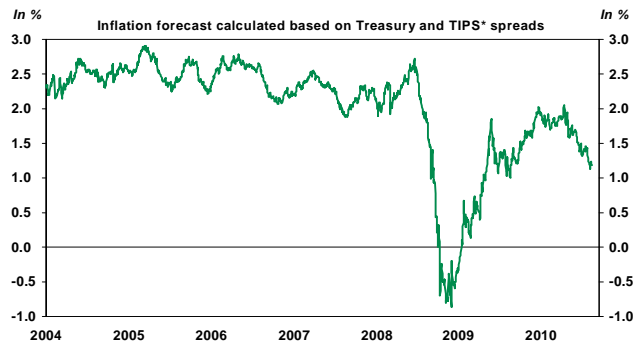
Graph 5 – Weak new orders forecast investment slowdown in the United States



Sources: Bureau of Economic Analysis, U.S. Census Bureau and Desjardins, Economic Studies

These signs of softness in the U.S. economy are not surprising. The last recession has left large unbalances which will limit economic growth for several more quarters. The risks of another recession have gone up a little but, like most analysts, we continue to call for modest economic growth in the United States. Inflation pressure will remain very weak, but there are few signs of any substantial deflation (graph 6).

Graph 6 – Inflation expectations are weak, but positive in the United States

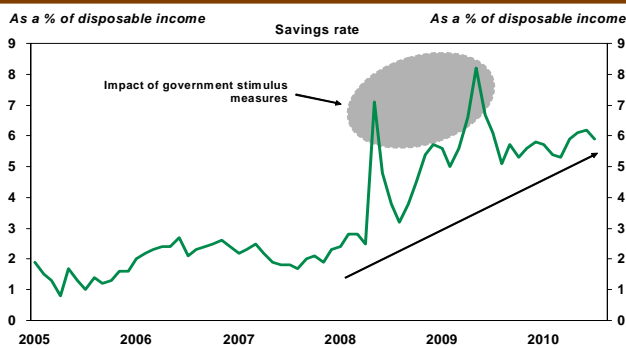


* Treasury Inflation-Protected Securities. Sources: Bloomberg and Desjardins, Economic Studies

Although we cannot deny that the economic context is currently favourable to the bond market, in our view, it does not justify rates below or close to the rates seen at the peak of the last recession. Other factors are currently swelling demand for Treasuries. Right now, abundant funds are available in the private sector. Businesses have substantial cash on hand but they are hesitating to invest, given the

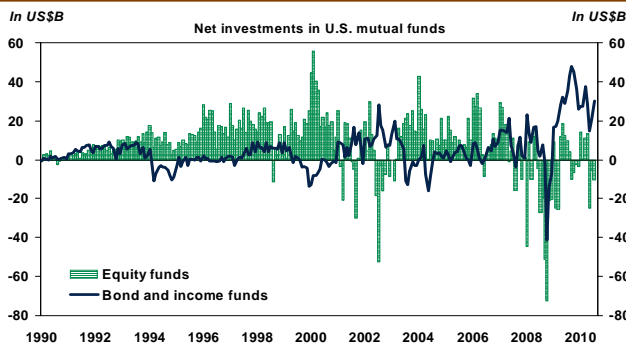
uncertain economic context. Households have increased their savings rates substantially to try to repair their balance sheets (graph 7). Lastly, banks can get financing at extremely low rates but are hesitating to lend, especially as demand for loans is quite soft. All of these economic agents have major amounts to invest but are hesitant to jump into the stock market, based on the major corrections seen in the last few years. Their reflex is therefore to turn to the bond market, an asset class that delivered one of the best performances during the crisis. The data on investment in mutual funds shows how even individual investors are currently leaning toward the bond market (graph 8).

Graph 7 – Savings of U.S. households have shot up sharply in the past few quarters



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

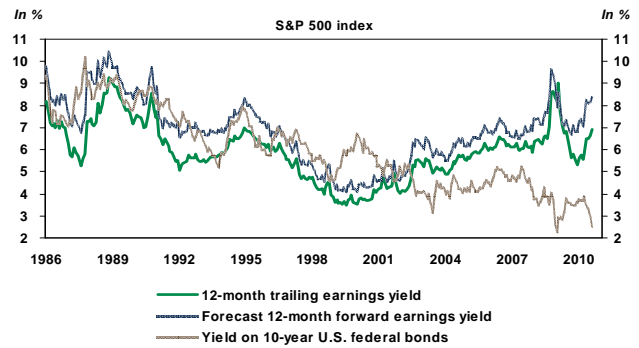
Graph 8 – The public has invested massive amounts in bond funds



Sources: Investment Company Institute and Desjardins, Economic Studies

The extraordinary demand for bonds, which strengthens with each additional dip by interest rates, does not seem to be based on a solid analysis of the expected return on the investment, however. Evaluation measures show that the bond market is currently overvalued. Our interest rate model shows that the U.S. 10-year rate should currently be around 4.00%. The bond market seems even more expensive when compared to the stock market (graph 9). Some would say that investors accept the low return on Treasuries in exchange for their high level of safety. This safety is a relative thing; if

Graph 9 – The spread between stock market returns and government securities is very wide



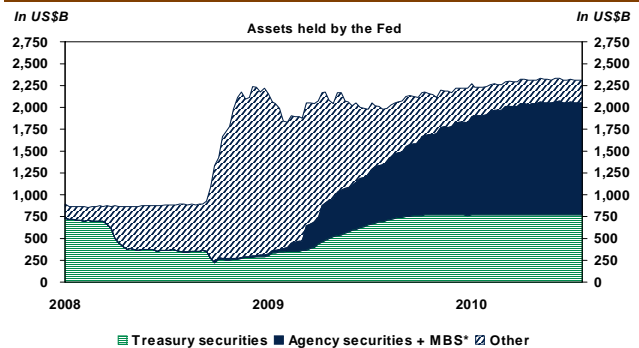
Sources: Datastream, Institutional Brokers Estimate System and Desjardins, Economic Studies

interest rates rose just a few points, this would lead to a major loss of capital for bondholders.¹

WHAT WILL THE FED DO?

The recent pullback in bond rates is also based on the Fed's decision to maintain its domestic security holdings by reinvesting in federal bonds the amounts freed up by prepayments or maturing mortgage and agency securities. In theory, this decision could result in massive Treasuries purchases, as the Fed holds over US\$1,000B in agency and mortgage securities (graph 10). However, almost all of these securities have very long terms and will not be replaced by Treasuries for several years to come (graph 11 on page 4). However, given the possibility of prepayment on mortgage securities, the Fed's Treasury purchases could be substantially larger than the terms suggest, especially if mortgage rates remain at historic lows. The Fed thinks it could get about US\$400B in prepayments and maturities on its security holdings by the end of 2011, sustaining demand for Treasuries.

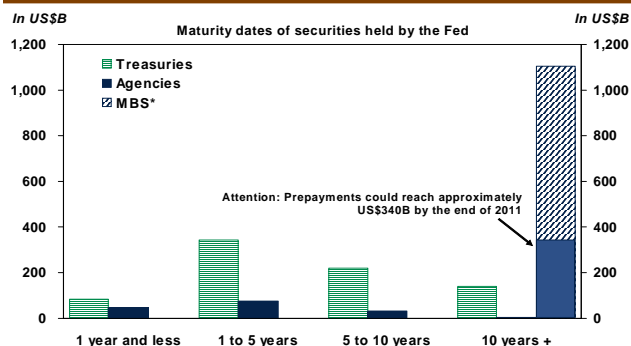
Graph 10 – Portion of Treasuries in the Fed's balance sheet set to rise



* Mortgage Backed Security. Sources: Federal Reserve Board and Desjardins, Economic Studies

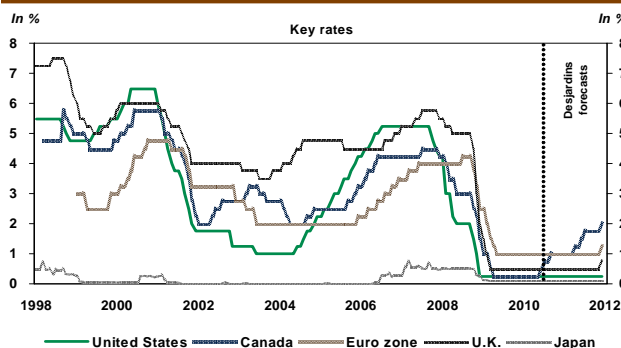
¹ For example, a 2% increase in the U.S. 10-year bond rate could lead to a loss of about 15% for bondholders.

Graph 11 – Long-term MBS* dominate the Fed's portfolio of securities



* Mortgage Backed Security.
Sources: Federal Reserve and Desjardins, Economic Studies

Graph 12 – Key rates will rise very slowly



Sources: Datastream and Desjardins, Economic Studies

In addition to the Fed's decision to maintain the size of its balance sheet, the markets read the announcement as a first step toward much larger purchases of Treasuries. Fed Chair Ben Bernanke, however, stated in his speech at the annual Jackson Hole meeting that he still expected U.S. growth to accelerate in the next few years, and that the risks that inflation would increase or drop substantially seemed low. In this context, the costs of additional non-traditional interventions to support the economy seem to exceed the benefits.

Fed leaders are nevertheless aware that the economic outlook could still deteriorate and are prepared to step in to support the economy and maintain price stability. Bernanke discussed three options that were considered to make the monetary policy even more accommodative. The first option would be to once again increase the quantity of long-term securities the Fed holds, which should put additional downside pressure on interest rates. A second option would be to change its communication policy, committing to maintaining the federal funds rate even longer than the markets anticipate. A third option would be to lower the rate the Fed pays on bank reserves, to encourage them to increase their lending.

In light of Bernanke's comments, it seems that, in the current situation, the Fed would opt for the first option, i.e. further expanding its securities purchases if the economic outlook were to deteriorate. As long as the possibility of additional massive purchases by the Fed exists, the bond market will be favoured.

THE OTHER CENTRAL BANKS WILL ALSO BE CAUTIOUS

Statements from the other major central banks clearly show concern about the future of the economic recovery. This should translate into stable key rates for several more quarters (graph 12). In Europe, the European Central Bank will maintain its measures to support the banking system for several months, to keep last spring's fears from recurring. Despite

high inflation and strong economic growth in the U.K. in the second quarter, the Bank of England's stance remains very dovish; it has downgraded its growth outlooks to reflect the major austerity measures announced by the British government. For its part, the Bank of Japan has just announced new quantitative measures to attempt to limit the yen's rise and its consequences for Japan's economy.

Although the Canadian economy remains relatively strong, the Bank of Canada (BoC) cannot overlook the upswing of international risks. After a third increase on September 8, the BoC should start a pause of about six months, preferring to wait for the risks of a double dip to ease in the United States before continuing with monetary firming.

CONCLUSION: VERY LOW INTEREST RATES FOR A LONGER PERIOD

Both historically and fundamentally, the bond market currently seems overvalued. Only Japanese-style deflation scenarios or an important relapse of the global economy (and these are still unlikely) would make it possible to anticipate a good medium-term return in the bond market. However, the factors that are currently favouring bonds could take a while to reverse. The U.S. economic recovery remains fragile and we think it will be mid-2011 before the job market starts to post sustained job growth. In a context in which central banks want to continue offering maximum support for the economy's recovery, and consumers continue to save more than usual, demand for bonds could remain very strong. The possibility of new quantitative measures will also keep supporting the bond market for a while. A substantial upswing in bond rates is thus only forecast as of next spring, although we must remember that it is very difficult to predict the exact timing of a change in market sentiment.

François Dupuis
Vice-President and Chief Economist

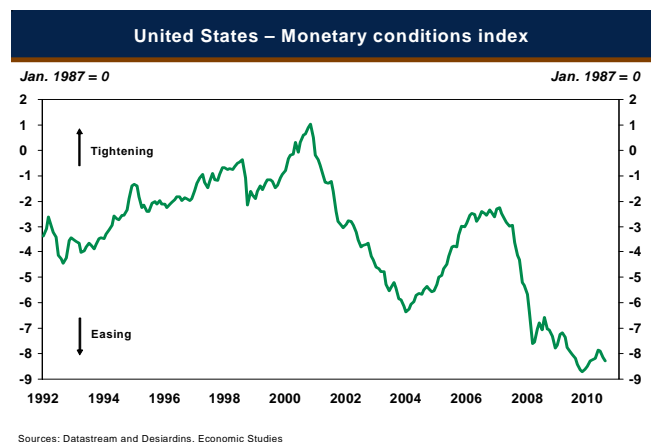
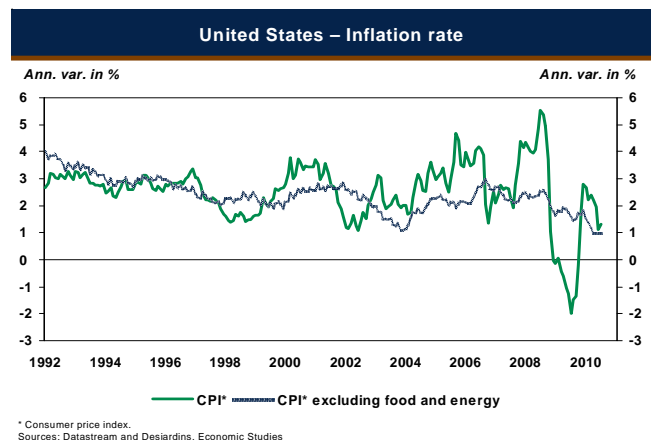
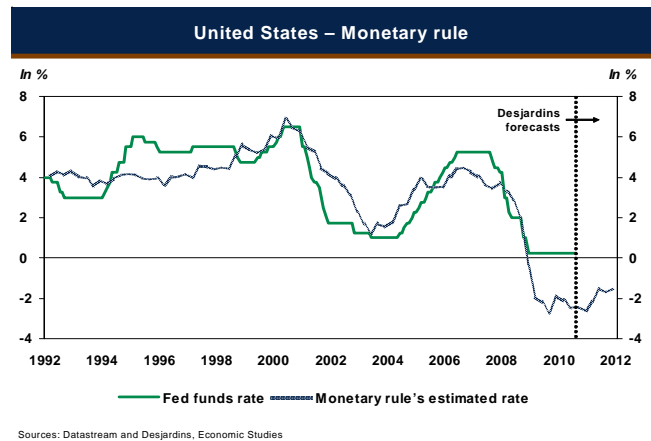
Mathieu D'Anjou
Senior Economist

FEDERAL RESERVE

The “extended period” gets a little longer

- Although the economy continued to recover last spring, the economic situation seems to be changing in the United States. Soft private sector employment growth and deceleration by many leading indicators signal that the recovery is losing steam.
- Faced with this, the Federal Reserve (Fed) opted at its August 10 meeting to keep the securities on its balance sheet steady by reinvesting the amounts made available by early payments and maturing mortgage and agency securities.
- The Fed has over US\$2,000B in assets, 54% of which are agency and mortgage securities. A Fed study estimates that prepayments and maturities will make the balance sheet decline by about US\$400B by the end of 2011. According to most Fed leaders, a reduction of this size was premature, given that the recovery is not very convincing and the risks of a relapse are growing.
- This decision should be construed as a desire to keep the monetary policy steady, rather than being read as further easing of monetary conditions. However, in this economic context, when growth forecasts must be downgraded given how soft the indicators have been recently, the Fed could, in the end, proceed with other quantitative measures. It could be necessary to expand the balance sheet again if the risks of a relapse rise further, particularly if the financial and political contexts keep the White House from going ahead with other fiscal stimulus measures.
- The Fed also has some leeway, as there is almost no inflation pressure. Core inflation, which excludes food and energy, is at an almost 40-year low; it should hold at around 1% until at least the spring of 2011.

Forecasts: By saying that it does not want a premature, forced cut to its balance sheet, the Fed is signalling that its monetary policy will stay at current levels for a long time to come. The uncertainty regarding the recovery’s strength and the weak job and credit markets mean that we no longer anticipate any key rate increases until the winter of 2012. The target rate for federal funds will thus remain exceptionally low for an even longer extended period.

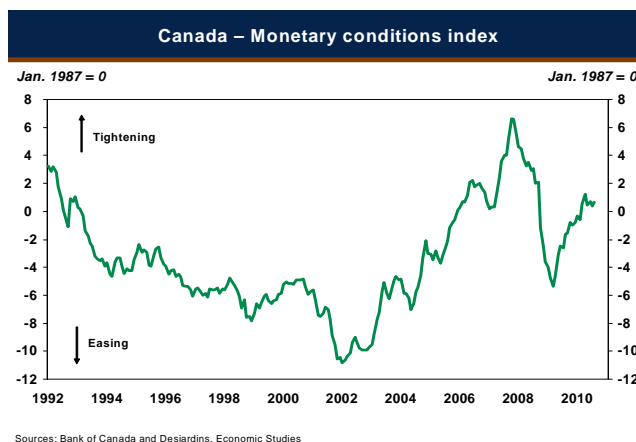
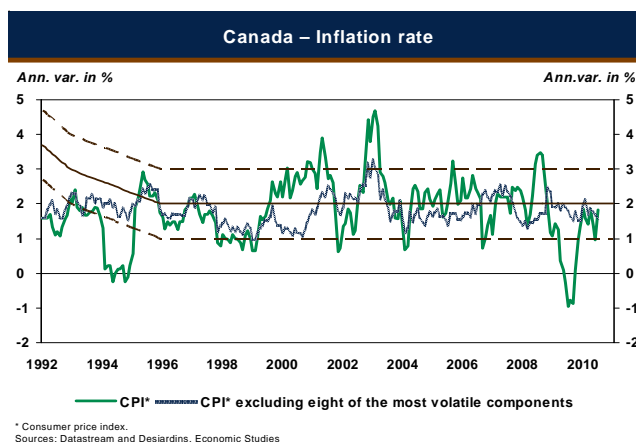
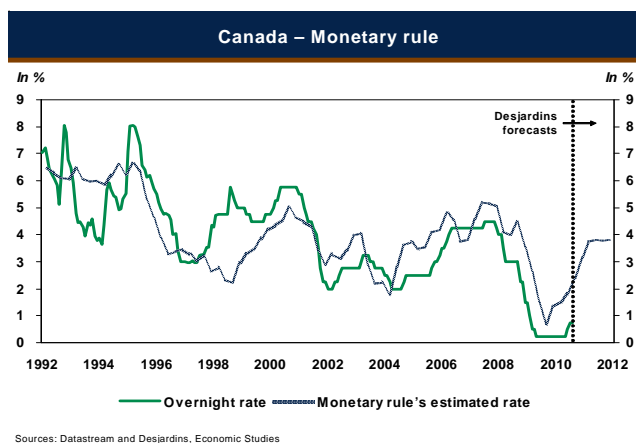


BANK OF CANADA

One last increase before breaking for a few months

- Following the Q1 2010 real GDP increase of 5.8%, the latest data show that the Canadian economy's growth has moderated in the last few months. Thus, the real GDP rose by just 2.0% in the second quarter.
- Among other things, the forecast deceleration by the real estate market materialized a little more quickly than expected in some regions. For one thing, pent-up demand from the recession now seems to have been met; for another, the implementation of new standards on mortgage lending and the introduction of the new provincial sales taxes in Ontario and British Columbia have tangibly helped to put the brakes on the real estate market.
- Once expressed in Canadian dollars and adjusted for seasonal effects, commodity prices are off substantially since the start of the year. This could affect growth by the western provinces' economies and reduce the positive wealth effect that had done so much to boost the country's recovery since last fall.
- Although weaker, economic growth is still well above output potential. Note that the Bank of Canada (BoC) estimates that production potential will only increase by 1.5% in 2010. The current negative output gap will thus continue to close in the coming quarters.
- Because the total CPI is very affected by changes to sales taxes, we will have to rely more on the evolution of the BoC's core index (CPIX) in the next few months. Initially, the CPIX's 0.1% monthly dip in July may seem worrisome in the current context, when deflation fears are growing. However, this decline stems mainly from seasonal effects, which will inevitably reverse in a few months. The CPIX's annual change has barely budged. At 1.6%, it remains in the 1.5% to 2.1% range in which it has been oscillating since the start of 2009.

Forecasts: The fact that core inflation has been in a tight range close to the mid-point target, and that the economy is still growing faster than potential (despite the recent difficulties) mean that the BoC could opt for one final key rate increase in September. However, the worsening problems south of the border could encourage the BoC to pause its monetary firming cycle for a few months when it releases its *Monetary Policy Report* in October.

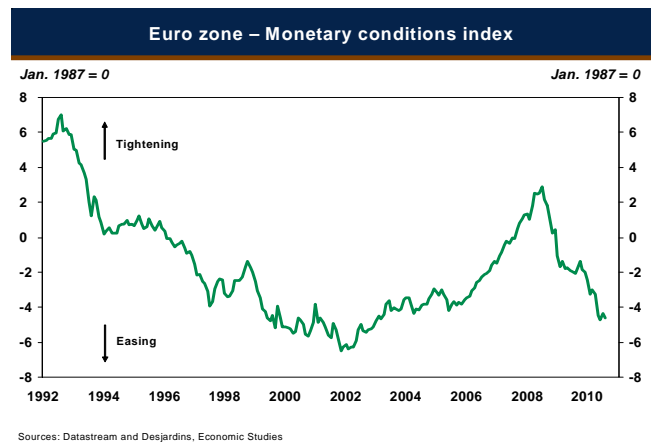
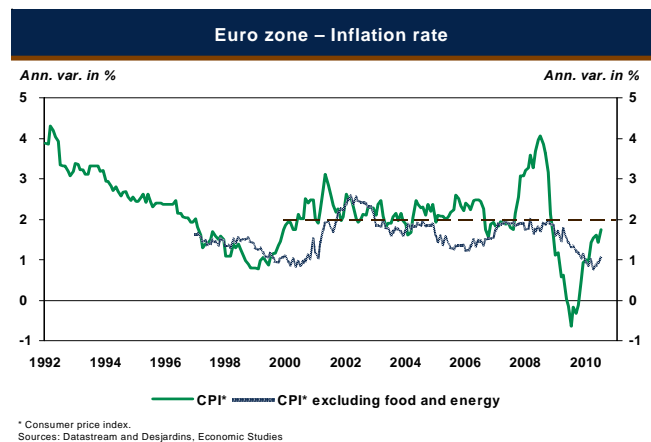
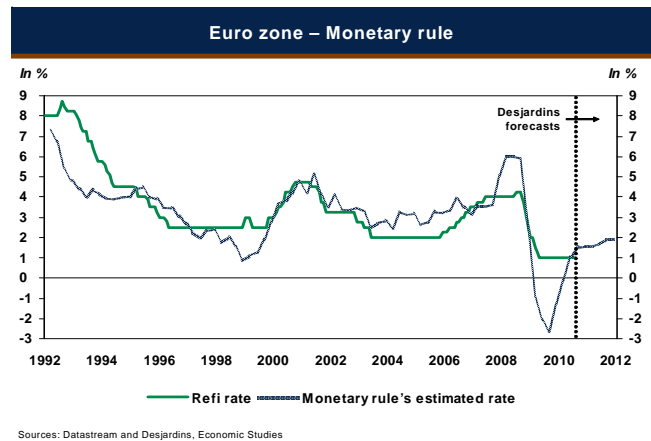


EUROPEAN CENTRAL BANK

The euro zone seems to have avoided the worst, but growth looks weak

- To no one's surprise, the European Central Bank (ECB) has not changed its key rate in the last few months. Last spring, the Greek crisis, which was threatening to take the euro zone and European financial system down with it, even forced the ECB to expand its extraordinary measures extensively. In fact, it even started to buy up substantial amounts of government bonds to ensure the bond market kept operating smoothly.
- After a few very tough months, the ECB was quite relieved by the substantial drop in financial strains since the end of June. The many successful bond issues by euro zone nations, publication of stress tests that show that most European banks were solid, and the news of the Basel Committee's proposed easing of capital and liquidity criteria helped to dissipate much of the fears of another major financial crisis emanating from Europe. The drop in demand for liquidity at the ECB and the decrease of its bond purchases in the last few weeks are a reflection of the markets' smoother functioning.
- The release of encouraging economic statistics has also helped reduce concern in the euro zone. The confidence of Europe's economic agents has not been overly affected by last spring's upheaval and activity has quickened following a disappointing start to the year. Euroland's real GDP growth was relatively robust in the second quarter, with a non-annualized gain of 1.0%. This is the strongest advance since the spring of 2006. Among the major zone nations, the Netherlands and France performed fairly well, but Germany takes the cake, making a non-annualized gain of 2.2%, something that has not been seen since East and West Germany were reunited.
- At the start of August, the ECB therefore deemed that the latest information showed that economic activity strengthened in the second quarter and that the data available on the third quarter were better than predicted. However, the ECB expects the recovery to remain moderate and uneven over the coming quarters. The recent signs of global economic weakness and the many austerity measures instituted by governments to cope with public debt problems suggest that Europe's economy will see limited growth over the coming quarters. Inflation pressures will thus be modest.

Forecasts: Although the risks of a major financial crisis have come down substantially, the euro zone still has many challenges to tackle, including repairing public finances. In a context of weak and uncertain global economic growth, the ECB should wait until the end of 2011 before initiating monetary firming.

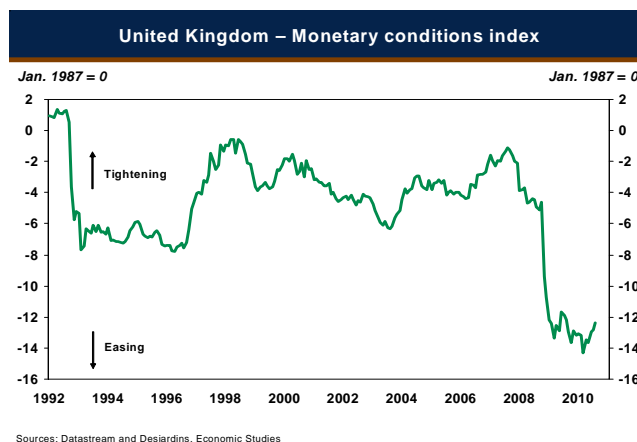
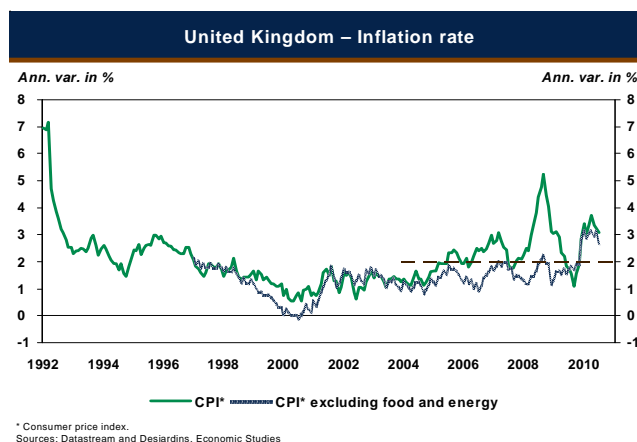
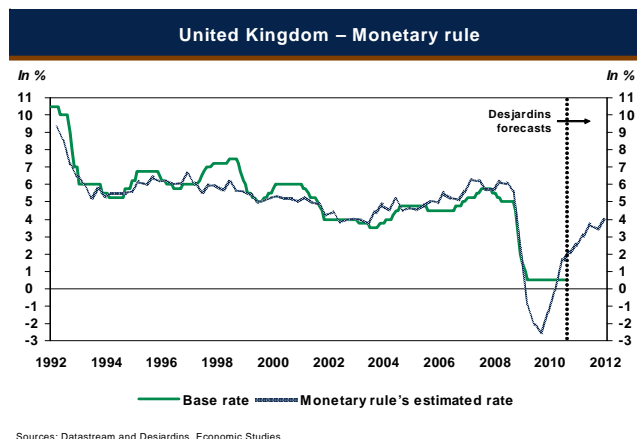


BANK OF ENGLAND

The Bank of England has doubts about the British economy's recovery

- The Bank of England (BoE) has announced no changes to its monetary policy in recent months. Its key rate has been steady at 0.50% since March 2009, while securities purchases financed by the creation of banking reserves remain at £200B (US\$310B). For a third straight month, Andrew Sentance, a member of the committee that sets the monetary policy, voted in favour of immediate monetary firming. This dissident is still isolated, however, and the committee considered some arguments in favour of easing the monetary policy further.
- At first glance, the latest economic statistics certainly make it possible to argue that the time has come to kick off monetary firming in the United Kingdom. Britain's economy expanded by an impressive 4.9%, annualized, in the second quarter of 2010 and, at 3.1% in July, inflation remains well above the 2% target.
- Most committee members are still concerned about Britain's economy, however. In particular, Governor Mervyn King's stance remains quite dovish. He recently warned that "we cannot be confident that the recovery in demand, output and employment here in the U.K. will be sustained." For now, he thinks that the foot has to stay firmly on the gas to stimulate the economy.
- The BoE's concerns can be seen in the new forecasts that appear in the *August Inflation Report*. Given the sizeable austerity measures announced by the British government, ongoing tight credit conditions and some signs of weakness in consumer and business confidence, the BoE's growth outlooks have been downgraded. In the near term, the forecast evolution by prices has been revised upward, as the 2.5% increase to the value added tax at the start of 2011 will keep inflation above the 2% target until the end of 2011. After that, however, the BoE predicts that ongoing unused production capacity will probably take inflation below its target.

Forecasts: Although inflation will be above its 2% target for several quarters, the BoE seems determined to keep its key rate unchanged for some time to come. The major austerity measures announced in the June 22 budget and some signs that the economic recovery is flagging for both the U.K. and its major trade partners justify its caution. Its first key rate hike is now forecast to be in the last quarter of 2011.

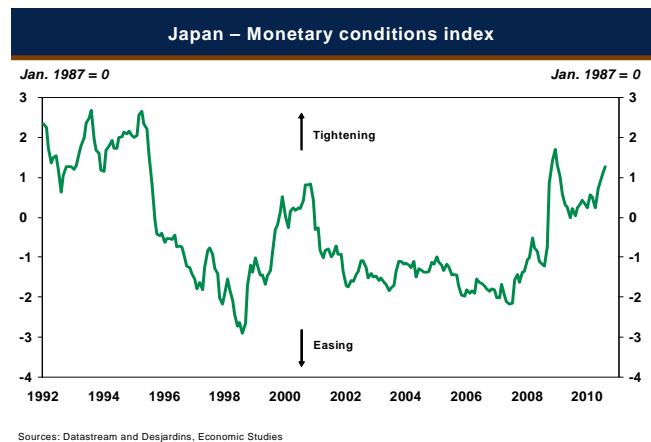
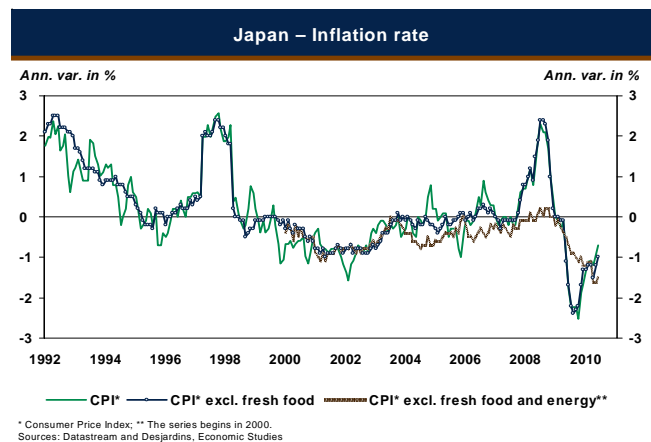
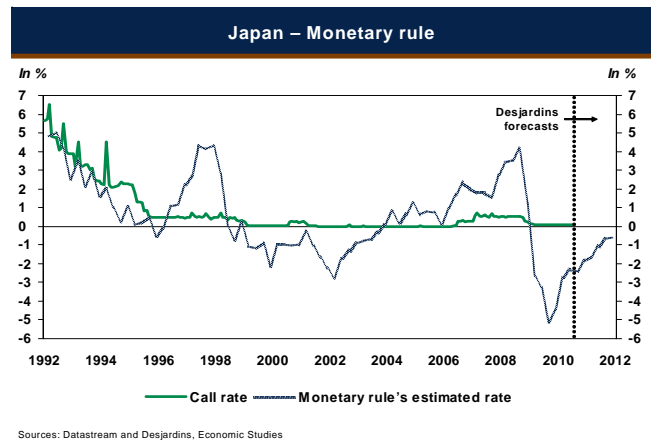


BANK OF JAPAN

Further easing measures expected

- Japan's economic recovery is showing signs of weakness and, with no price and wage pressures, deflation is becoming further entrenched. An extraordinary meeting was held on August 30 to announce a ¥10,000B (US\$133B) extension in the fixed-rate funds-supplying operation against pooled collateral. Loans made with the extension will have terms of six months, unlike the three-month terms for the ¥20,000B (US\$235B) already allotted for the program. The latest action is in addition to the ¥3,000B (US\$35B) made available last spring to stimulate credit to the private sector.
- Japan's economic growth slowed abruptly in the second quarter, dropping to an annualized 0.4% from the previous quarters' 4.4% and 4.1%. The drop in pace is mainly due to a pullback by investment and smaller contribution from foreign trade. Consumers also played a smaller role in growth, along with the government, whose stimulus measures are now starting to have less of an effect. Failing stronger private domestic demand, Japan's economic performance will vacillate in tune with the global economic recovery and strength of international trade. Here, the obvious signs that other economies are slowing and the yen's appreciation do not augur well for Japan.
- At less than ¥85/US\$, Japan's exchange rate has recently returned to levels that have not been seen in the last 15 years. The currency is benefiting from its safe haven role, and also from larger purchases of Japanese securities by the People's Bank of China. In addition to hurting Japanese exports' ability to compete, the exchange rate's recent movement has translated into substantial tightening by Japan's monetary conditions index.
- The BoJ thus has several good reasons to increase its intervention, especially as the recent movement by consumer prices does not suggest that deflation will resolve quickly. The annual change in consumer prices ex-energy and food dropped more steeply last spring and is currently at -1.5%. During Japan's last deflationary period, the BoJ's balance sheet (a measure of the level of monetary intervention) was bigger than it is now. To achieve a comparable degree of easing, the balance sheet will have to increase by another ¥30,000B (US\$353B).

Forecasts: Japan's soft economy and deflation justify keeping key interest rates low until at least 2012. It would not be surprising over the next few months to see the BoJ keep expanding its balance sheet to get its intervention to levels that match or exceed the levels seen in the previous deflation period.



**Table 1
Key interest rates**

End of period in %	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
United States												
Federal funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada												
Overnight funds	0.50	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.00	1.50	1.75	2.00
Euro zone												
Refinancing rate	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25
United Kingdom												
Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Japan												
Overnight funds	0.10	0.10	0.10	0.10	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
June 2010			
1	Bank of Canada	+25 b.p.	0.50
9	Reserve Bank of New Zealand	+25 b.p.	2.75
9	Bank of Brazil	+75 b.p.	10.25
10	European Central Bank	s.q.	1.00
10	Bank of England	s.q.	0.50
14	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.	2.00
23	Federal Reserve	s.q.	0,00 / 0,25
July 2010			
1	Bank of Sweden	+25 b.p.	0.50
6	Reserve Bank of Australia	s.q.	4.50
8	European Central Bank	s.q.	1.00
8	Bank of England	s.q.	0.50
14	Bank of Japan	s.q.	0.10
16	Bank of Mexico	s.q.	4.50
20	Bank of Canada	+25 b.p.	0.75
21	Bank of Brazil	+50 b.p.	10.75
28	Reserve Bank of New Zealand	+25 b.p.	3.00
August 2010			
3	Reserve Bank of Australia	s.q.	4.50
5	European Central Bank	s.q.	1.00
5	Bank of England	s.q.	0.50
9	Bank of Japan	s.q.	0.10
10	Federal Reserve	s.q.	0,00 / 0,25
11	Bank of Norway	s.q.	2.00
20	Bank of Mexico	s.q.	4.50

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

Source: Desjardins, Economic Studies

**Table 3
Coming soon**

Date	Central Bank
September 2010	
1	Bank of Brazil
2	European Central Bank
2	Bank of Sweden
7	Reserve Bank of Australia
7	Bank of Japan
8	Bank of Canada
9	Bank of England
15	Reserve Bank of New Zealand
16	Swiss National Bank
21	Federal Reserve
22	Bank of Norway
24	Bank of Mexico
October 2010	
4	Reserve Bank of Australia
5	Bank of Japan
7	European Central Bank
7	Bank of England
15	Bank of Mexico
19	Bank of Canada
20	Bank of Brazil
26	Bank of Sweden
27	Bank of Norway
27	Reserve Bank of New Zealand
28	Bank of Japan
November 2010	
1	Reserve Bank of Australia
3	Federal Reserve
4	European Central Bank
4	Bank of England

Source: Desjardins, Economic Studies

Table 4
United States: fixed income market

End of period in %	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key rate												
Federal funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Treasury bills												
3-month	0.21	0.19	0.14	0.06	0.16	0.18	0.16	0.18	0.20	0.22	0.25	0.35
Federal bonds												
2-year	0.81	1.12	0.95	1.14	1.02	0.60	0.50	0.60	0.70	1.00	1.25	1.60
5-year	1.68	2.56	2.31	2.68	2.55	1.77	1.35	1.45	1.65	2.00	2.50	3.00
10-year	2.69	3.52	3.30	3.84	3.83	2.94	2.50	2.60	2.80	3.15	3.60	4.00
30-year	3.57	4.31	4.05	4.63	4.71	3.89	3.55	3.65	3.85	4.20	4.50	4.60
Yield curve												
5-year - 3-month	1.47	2.37	2.17	2.62	2.39	1.59	1.19	1.27	1.45	1.78	2.25	2.65
10-year - 2-year	1.88	2.40	2.35	2.69	2.81	2.33	2.00	2.00	2.10	2.15	2.35	2.40
30-year - 3-month	3.36	4.12	3.91	4.57	4.55	3.71	3.39	3.47	3.65	3.98	4.25	4.25

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

Table 5
Canada: fixed income market

End of period in %	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key rate												
Overnight funds	0.50	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.00	1.50	1.75	2.00
Treasury bills												
3-month	0.40	0.25	0.23	0.19	0.29	0.50	0.90	1.00	1.20	1.70	1.80	2.20
Federal bonds												
2-year	1.07	1.21	1.26	1.48	1.73	1.39	1.30	1.40	1.60	2.00	2.20	2.60
5-year	1.75	2.46	2.58	2.77	2.91	2.33	2.15	2.25	2.45	2.75	3.00	3.35
10-year	2.78	3.36	3.31	3.61	3.57	3.08	2.85	2.90	3.10	3.35	3.65	4.00
30-year	3.56	3.86	3.84	4.08	4.07	3.65	3.50	3.55	3.70	3.90	4.15	4.30
Yield curve												
5-year - 3-month	1.35	2.21	2.35	2.58	2.62	1.83	1.25	1.25	1.25	1.05	1.20	1.15
10-year - 2-year	1.71	2.15	2.05	2.13	1.84	1.69	1.55	1.50	1.50	1.35	1.45	1.40
30-year - 3-month	3.16	3.61	3.61	3.89	3.78	3.15	2.60	2.55	2.50	2.20	2.35	2.10
Spreads (Canada - U.S.)												
3-month	0.19	0.06	0.09	0.13	0.13	0.32	0.74	0.82	1.00	1.48	1.55	1.85
2-year	0.27	0.09	0.31	0.34	0.72	0.79	0.80	0.80	0.90	1.00	0.95	1.00
5-year	0.07	-0.10	0.26	0.09	0.36	0.55	0.80	0.80	0.80	0.75	0.50	0.35
10-year	0.09	-0.16	0.00	-0.22	-0.26	0.15	0.35	0.30	0.30	0.20	0.05	0.00
30-year	-0.00	-0.45	-0.21	-0.55	-0.64	-0.24	-0.05	-0.10	-0.15	-0.30	-0.35	-0.30

f: forecasts

Sources: Datastream and Desjardins, Economic Studies