The Yield Curve

Desjardins
Economic Studies
www.desjardins.com/economics

January 28, 2014

Bond yields will continue to rise in 2014

HIGHLIGHTS

- Federal Reserve (Fed) leaders announced in December the first reduction to their securities purchases. The Fed should announce at each meeting that it will further reduce its securities purchases. However, to make these decisions, it will continue to closely monitor economic and financial conditions.
- Now that the jobless rate is closer to normal, it would be logical for the Fed to focus on other variables. In the short run, we can assume that the Fed will closely monitor changes to the personal consumption expenditure deflator.
- In Canada, eventual key rate cuts have not been ruled out should inflation stay well below the lower target (1%) for an extended period of time. A key rate cut is nonetheless highly unlikely.
- The bond market's solid performance at the start of the year could suggest that the bond market correction is over. That is not our opinion. Accelerating global economy, with the United States at the head of the pack, should put upside pressure on yields over the coming quarters.

Contents

Editorial 1
Monetary Policy
Federal Reserve 3
Bank of Canada 4
Overseas central bank 5
Bond market
United States 6
Canada 7
Provinces 8
Tables 9-10

Editorial

A year ago, we predicted that 2013 could very well be a watershed year, as the long bond bull market would finally end and yields would begin to climb gradually. While the first part of our forecast was confirmed, yields rose more violently than we had anticipated. Last spring, the first signs that the Federal Reserve (Fed) was planning to taper its asset purchases caused U.S. real rates to return to positive territory almost immediately (graph 1).

Graph 1 – U.S. 10-year yields suddenly returned to positive territory in spring 2013

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

After causing some surprise by opting for the status quo last September, the Fed finally decided to begin reducing its purchases at its December 18 meeting. Encouraging economic figures from the United States and the budget agreement in Washington to prevent further federal spending cuts increased Fed leaders confidence that labour market gains will continue. The monthly pace of purchases went from US$85B per month to US$75B in January. The markets understood the Fed's message that highly stimulating monetary policy would remain appropriate despite this modest tapering and responded well to this announcement, although most analysts had not expected it.

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

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

Mathieu D'Anjou Senior Economist
Benoit P. Durocher Senior Economist
Francis Généreux Senior Economist
Jimmy Jean Senior Economist
Hendrix Vachon Senior Economist

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 and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. **Copyright © 2014, Desjardins Group. All rights reserved.**

Reflecting the Fed's decision and, to a greater extent, the growing optimism about the economy, U.S. 10-year yield ended 2013 at 3.00%, up 125 points from the end of 2012. Very disappointing job creation for December and renewed fears about emerging countries then brought this yields to around 2.70%.

THE JOBLESS RATE MAY HAVE LESS INFLUENCE ON FED DECISIONS

Given its double mandate of stable prices and maximum employment, the Fed has always paid close attention to the job market. By deciding to commit to keeping its key rate unchanged until the jobless rate hits 6.5%, the Fed placed even more emphasis on this economic variable.

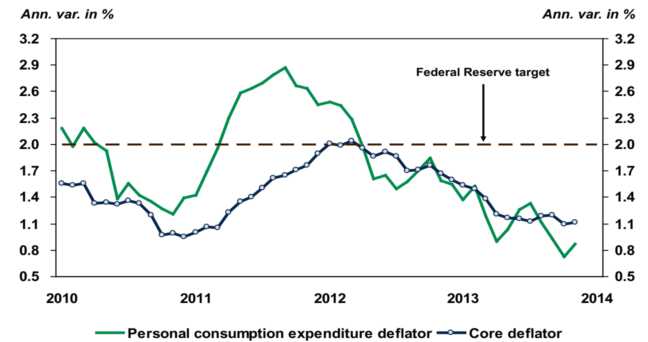
Despite weak job creation in December, the U.S. jobless rate fell to 6.7%. The Fed is therefore in a tough spot, as its pledge not to tighten its monetary policy before the jobless rate falls to 6.5% no longer really means anything. The Bank of England is in the same situation. A first option for the Fed would be to use a lower threshold for the jobless rate, for example 6.0% or 5.5%. This option was not completely dismissed, but the Fed's latest statements imply that most leaders seem more inclined to return to using more qualitative indicators to signal future monetary policy direction. In its December statement, the Fed therefore used the following phrase: "[...] it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal."

We have always thought that linking monetary policy to the jobless rate was inappropriate[1] and it is especially difficult now, as several structural factors seem to be impacting this variable. Now that the jobless rate is closer to normal, it would be logical for the Fed to focus on other variables, which give a clearer indication of how healthy the U.S. economy is. In the short run, if the general outlook for the U.S. economy does not change much, we can assume that the Fed will closely monitor the personal consumption expenditure deflator, which is currently well below the central bank's target (graph 2).

BONDS CAN BE EXPECTED TO RETREAT AGAIN

The bond market's solid performance at the start of the year, especially in Canada where the Bank of Canada kept the door open to key rate cuts, could suggest that the bond

Graph 2 – Inflation pressures remain quite weak in the United States



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

market correction is over. That is not our opinion. Bond yields remain historically very low and the accelerating global economy, with the United States at the head of the pack, should put upside pressure on yields over the coming quarters. If we try to imagine the situation at the end of 2014, the most likely scenario is that the Fed will have ended its quantitative easing program, fears of deflation will have eased, and investors will be starting to prepare for a key rate hike in the second half of 2015. We therefore expect 2014 to end with 10-year yields at 3.60% for the United States and 3.30% for Canada. What's more, wild adjustments in the bond market could still surprise us.

François Dupuis
Vice-President and Chief Economist

Mathieu D'Anjou, CFA
Senior Economist

[1] Desjardins, Economic Studies, *Economic Viewpoint*, "Tying monetary policy to unemployment: Is the game worth the candle?" August 14, 2013, www.desjardins.com/en/a_propos/etudes_economiques/actualites/point_vue_economique/pv130814.pdf.

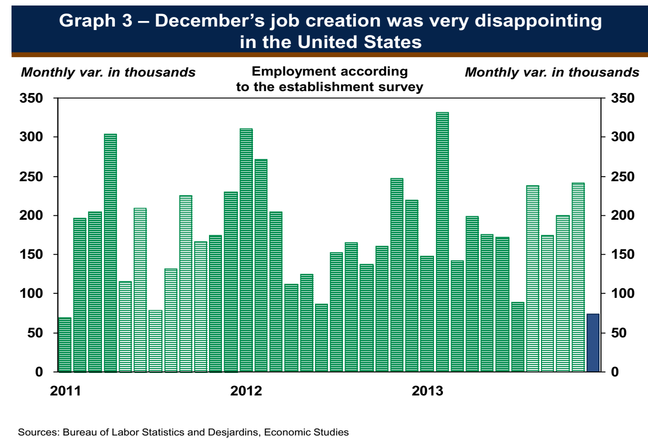
FEDERAL RESERVE

Tapering should continue at the same pace

- Federal Reserve (Fed) leaders announced in December the first reduction to their securities purchases. As of January 2013, these purchases were at US$85B per month. In January 2014, the amount dropped to US$75B—US$40B in Treasuries and US$35B in mortgage-backed securities. This reduction came a bit earlier than expected, but improved economic conditions, the absence of any major obstacles to growth that could have been caused by the shutdown, and the bipartisan budget agreement reached on December 10 created a window of opportunity for kicking off the process.
- The Fed should announce at each meeting that it will further reduce its securities purchases. However, to make these decisions, it will continue to closely monitor economic and financial conditions, especially inflation and the job market. In this last instance, December's results for the establishment survey could lead to some hesitation at the meeting in late January. Hires dropped to just 74,000, a break with the recent average gains of around 200,000 new jobs per month (graph 3). December's slide by the non-manufacturing ISM and lower consumer confidence according to January's preliminary data are also raising some doubts. However, it seems that the weather is one of the main factors in this weakness. What's more, most of the other economic indicators are doing especially well. Growth was probably quite strong at the end of 2013, and the outlook remains very positive for 2014, as many of the factors that hurt the economy last year have dissipated. We expect real GDP to grow 2.9% in 2014.
- At 6.7% in December 2013, the jobless rate is nearing the 6.5% threshold established by the Fed (graph 4). However, much of this drop is due to the fact that fewer Americans are participating in the labour force. Consequently, the jobless rate might not be the best indicator of the job market's health and, sooner or later, the Fed will have to revise or abandon the threshold it set in 2012 and turn to other statistics that are more representative of how Americans are doing. For its part, inflation remains modest, especially with regard to the consumption expenditure deflator. However, we expect it to rise slowly over 2014.

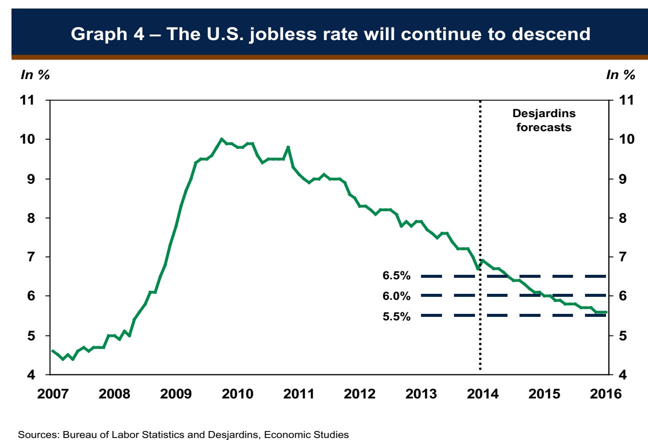
Forecasts: The Fed should keep the pace on reducing its securities purchases. At each meeting, it should announce a US$10B cut, and the program should wind up after the October meeting (graph 5). As for key rates, no increase is anticipated prior to September 2015.

Graph 3 – December's job creation was very disappointing in the United States



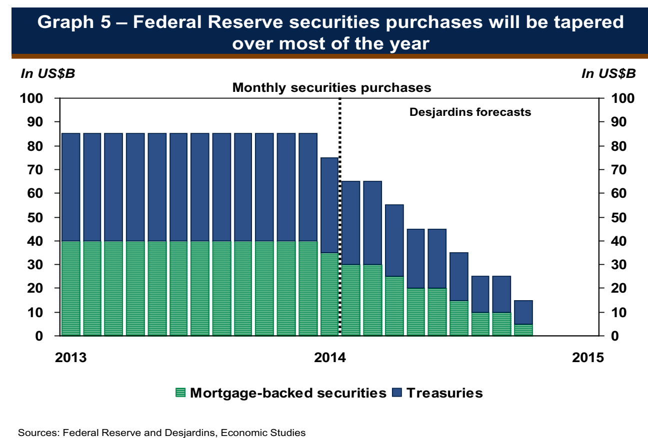
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Graph 4 – The U.S. jobless rate will continue to descend



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Graph 5 – Federal Reserve securities purchases will be tapered over most of the year



Sources: Federal Reserve and Desjardins, Economic Studies

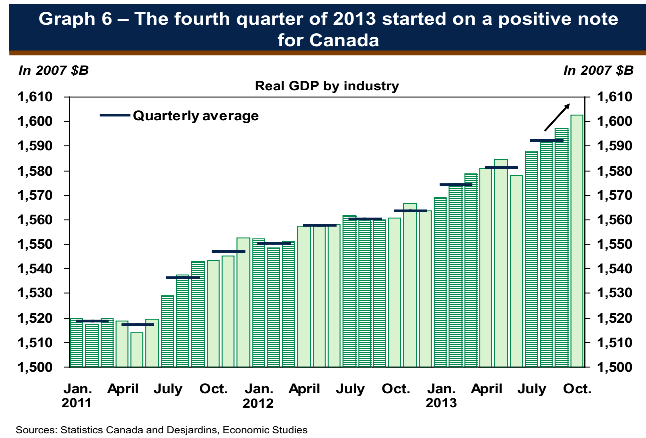
BANK OF CANADA

The expected inflation upswing should somewhat reduce concerns

- After rising an annualized 2.7% in the third quarter, Canada's real GDP looks to have performed fairly well again in Q4 2013. Real GDP by industry went up 0.3% in October, yielding a carryover of at least 2.5% for the fourth quarter as a whole (graph 6). Under these conditions, our forecast for 2013 goes from 1.7% to 1.8%. Canada's economic growth should accelerate in 2014 (+2.3%) and 2015 (+2.6%).
- However, many uncertainties remain for both 2014 and 2015. Among other things, exports are still not capitalizing on improved demand in the United States and the rest of the world. Note that many businesses are reporting some difficulty in capturing market share abroad due to fierce competition. A lot of hope rests on acceleration by exports and non-residential investment to support growth in the coming quarters. There are still some encouraging signs, however, as many businesses expect sales growth to pick up in the next 12 months (graph 7).
- Total inflation will gradually climb towards the mid-point target (2%) before the end of 2015 (graph 8). The downside risks to inflation are quite high, however, and the inflation forecasts were revised downwards throughout 2013, as the effects of surplus production capacity and lively competition in retail trade had a greater impact than anticipated.
- Worries about the housing market's strength and household debt linger, despite some modest signs of improvement.
- In the end, the monetary authorities feel that, overall, the risks are currently balanced.
- Movement by the balance of risks will dictate monetary policy decisions over the coming quarters. Eventual key rate cuts have not been ruled out should inflation stay well below the lower target (1%) for an extended period of time. In the short run, this possibility will continue to put downside pressure on the Canadian dollar. A key rate cut is nonetheless highly unlikely and everything suggests that the coming quarters will instead see the overnight rate somewhat stable.

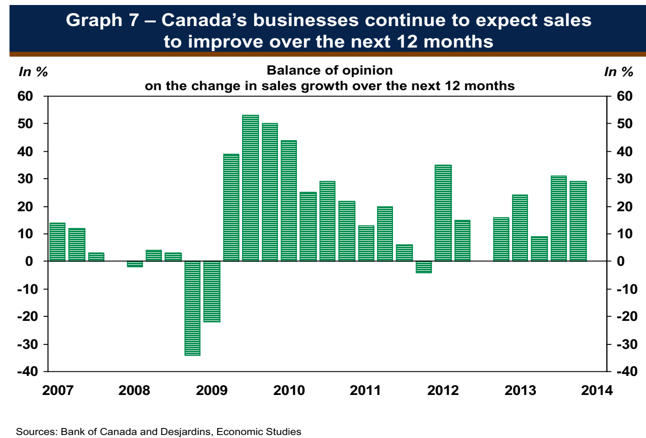
Forecasts: A first increase to the overnight rate could be ordered in the second half of 2015, when surplus production capacity will be nearly absorbed. Our scenario rules out any key rate cuts until then.

Graph 6 – The fourth quarter of 2013 started on a positive note for Canada



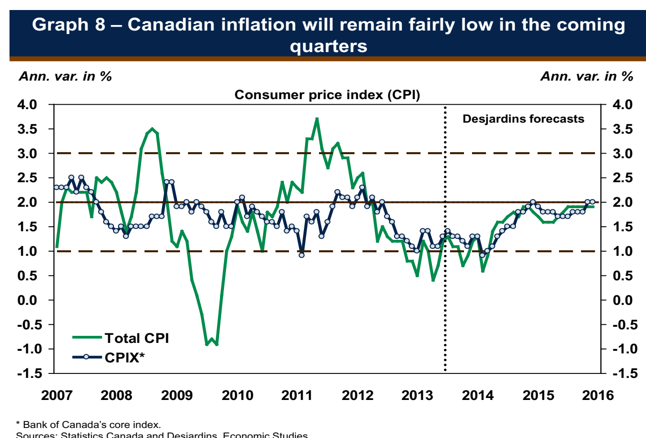
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 7 – Canada's businesses continue to expect sales to improve over the next 12 months



Sources: Bank of Canada and Desjardins, Economic Studies

Graph 8 – Canadian inflation will remain fairly low in the coming quarters



* Bank of Canada's core index.
Sources: Statistics Canada and Desjardins, Economic Studies

OVERSEAS CENTRAL BANK

A long period of low inflation in the euro zone

EUROPEAN CENTRAL BANK (ECB)

- The ECB did not modify its monetary policy in January, although it changed the tone of its statement. Faced with the likelihood of an extended period of low inflation, the ECB put more emphasis on its commitment to keeping key rates at or below their current levels for an extended period. Mario Draghi stressed the importance of this change in tone at the press conference, then indicated that unwanted firming of the money market or lower medium-term inflation forecasts could force the ECB to act.
- Because Euroland's economy and banking system are fragile, it would take only a slight negative shock to lower inflation forecasts or affect the money market. The chances that the ECB will intervene further therefore seem quite high. The ECB says it is ready to use all of the tools at its disposal, but is giving little indication of the tool it would favour first. In our opinion, as key rates are already very low, asset purchases or loans to the banking sector could be more effective.

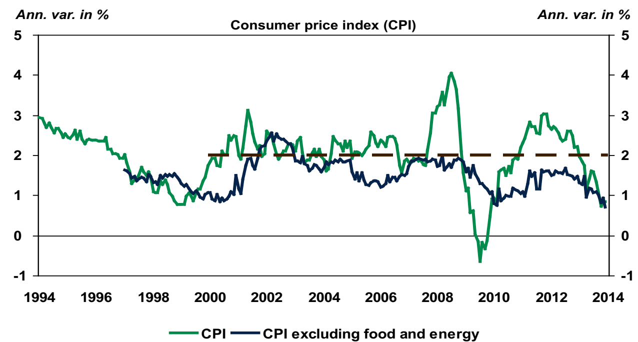
BANK OF ENGLAND (BoE)

- The BoE is dealing with a very different situation than the ECB. The economy is doing much better in the United Kingdom and the unemployment rate is falling rapidly. The latest figures put the unemployment rate at 7.1%, close to the 7.0% threshold set by the BoE. According to the policy announced in August, the BoE could soon contemplate raising its key rate or reducing its asset holdings. On the other hand, it could also wait several more quarters before taking action. Weak inflation, which is at its lowest point since November 2009, should become a more decisive factor in conducting its monetary policy. Among other things, the BoE expects excess production capacity and weak salary growth to limit the rise by inflation.

BANK OF JAPAN (BoJ)

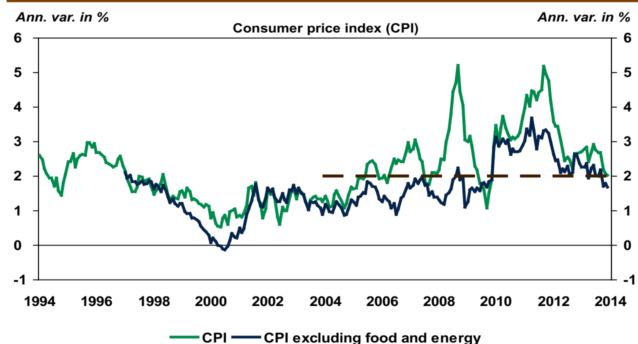
- In order to get the inflation rate up to 2.0% and keep it there, the BoJ will buy around ¥70,000B in assets in 2014. Inflation is currently at 1.6%, but drops to 0.5% when we exclude fresh food and energy. The rise by prices is therefore not yet widespread. It will probably take several more quarters for the BoJ to reach its target, especially if Japan's economic growth slows during the year. It is expected to show some vitality in the short term, before the sales tax hike is implemented in April. After that, economic growth and inflation could disappoint, a situation that would force the BoJ to take additional action. Among other things, it could decide to extend its asset purchases into 2015.

Graph 9 – Inflation rate in the euro zone



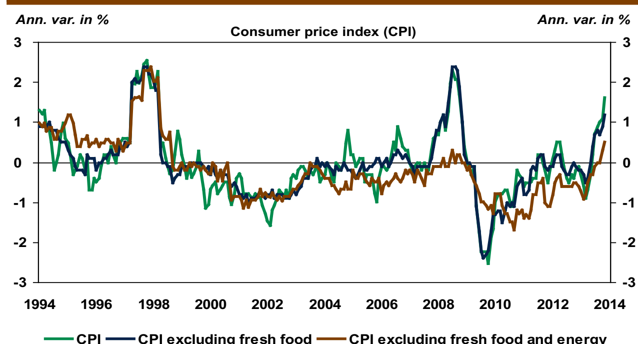
Sources: Datastream and Desjardins, Economic Studies

Graph 10 – Inflation rate in the United Kingdom



Sources: Datastream and Desjardins, Economic Studies

Graph 11 – Inflation rate in Japan



Sources: Datastream and Desjardins, Economic Studies

BOND MARKET

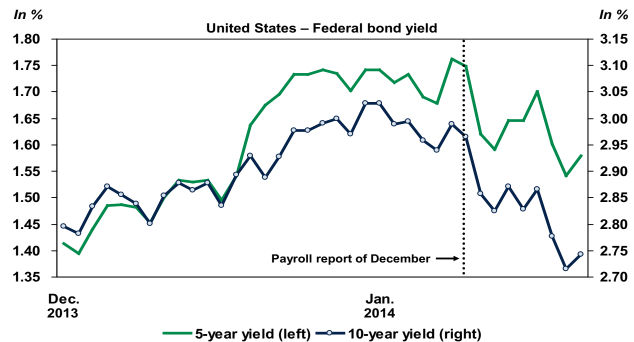
The rise in yields loses steam

U.S. FEDERAL BONDS

- Bonds are defying projections as 2014 begins. After the Federal Reserve's (Fed) decision to reduce the pace of its monthly asset purchases, yields rose at a clip similar to that seen in summer 2013, allowing 10-year yields to reach 3.00%. Investors were then reluctant to take yields to levels that could make the Fed react. However, the Fed never even had to worry about the level of market interest rates, as a report showing December's hires at 74,000 (compared with the 200,000 net hires expected by the consensus) quickly made yields correct downwards (graph 12). Although the long end of the curve was barely affected by upside pressure in December, it has benefited the most from the bond market's new momentum. 30-year yields went from 3.97% at the end of December to 3.74% on January 21, with considerable flattening of the 5/30 and 10/30 curves (graph 13).
- The Fed does not seem overly concerned about the weakness of job creation, however. Many officials indicated that, from a cumulative standpoint, the job market improvement seen since the beginning of its securities purchases remained satisfactory. For some on the committee, the evolution towards more conventional policymaking seems to constitute a welcome change. If upside risks to inflation were to materialize, the Fed would probably not want to be too far into stimulus territory. Therefore, we do not expect occasional negative surprises in employment to slow the pace of tapering, especially since the downward adjustment in bond yields acts as an automatic stabilizer.
- Bond yields should resume their gradual climb, in line with our scenario for U.S. economic growth. With an inflation rate that will gradually progress towards the 2% target throughout the year, inflation expectations, which edged down in January (graph 14), should begin to move up again.

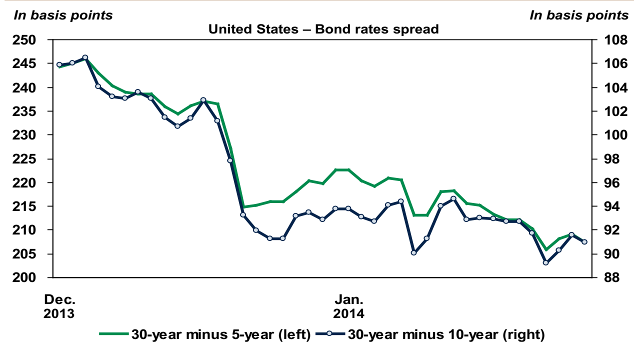
Forecasts: The recent drop in yields is more likely a pause within the underlying upward trend. Our year-end target for 10-year yields stands at 3.60%, with a rise that will gradually intensify over the year. Among others, the 2/10 and 5/10 curves should continue to steepen as they did in 2013 until the end of the year, with the trend reversing in 2015. The first policy rate hike, which will then be approaching, will put upside pressure on yields of Treasury bills and short-term bonds.

Graph 12 – Yields fell sharply after disappointing employment results in December



Sources: Bloomberg and Desjardins, Economic Studies

Graph 13 – Pronounced flattening of the curve has been observed since the beginning of December



Sources: Bloomberg and Desjardins, Economic Studies

Graph 14 – Slight decline in inflation expectations since the beginning of the year

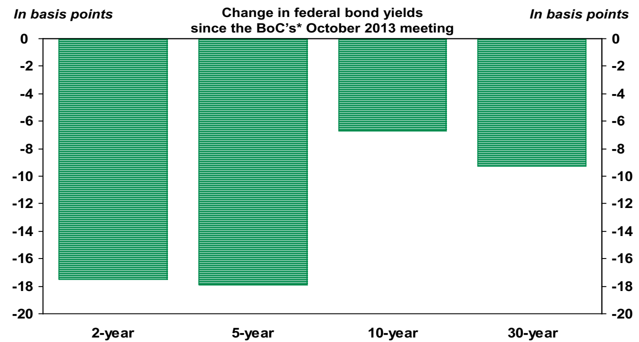
Sources: Bloomberg and Desjardins, Economic Studies

CANADIAN FEDERAL BONDS

- Admittedly, the performance of Canadian bonds at the end of 2013 largely exceeded expectations. In a way, the narrowing of spreads with U.S. bond yields (graph 15) is reminiscent of a situation in which the Bank of Canada (BoC) would have ordered a rate cut. Although that did not happen, the BoC's tone has been deliberately dovish since last fall, especially with regard to inflation, prompting strong reactions from both the currency and from yield spreads (graph 16). For example, the spread between Canadian and U.S. 2-year yields went below 70 basis points at the start of the year, following an abrupt 20 basis point drop over the fourth quarter of 2013. Even more remarkably, the spread for 5-year yields shrank 45 basis points over the same period. Canada's 5-year yields thus recently fell below U.S. yields for the first time since the end of the Great Recession (graph 17). Similarly, the 10-year spread neared -40 basis points recently.
- The BoC's change in tone and the presence of a new governor, still fairly unknown, had a powerful impact on market perception. The curve for overnight indexed swap futures recently showed that investors were seeing a nearly 40% probability of a key rate cut by the middle of the year. However, while the BoC continues to stress its concern about weak inflation growth, the *Monetary Policy Report* mentioned that lively competition in the retail sector was responsible for a 0.3 percentage point downside impact on the annual change in inflation, an effect that should dissipate in 2015. Furthermore, the BoC has taken a much more optimistic tone with regard to its outlook for U.S. economic growth and raised its forecast for Canada's economy in 2014.
- The markets' reaction therefore seemed a bit excessive, given that the most likely scenario still calls for rates to stay where they are for a long time. We continue to expect Canada's bond yields to climb, but that spreads could take longer than previously expected to widen. The BoC needs convincing signs that inflation is firming up before it abandons its dovish stance, a situation that might not materialize until the middle of the year.

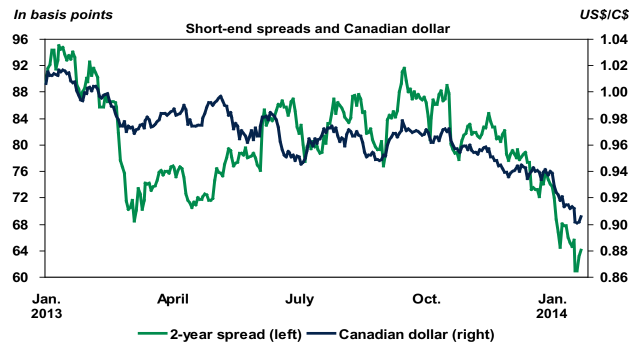
Forecasts: Canadian yields will rise a bit more gradually against U.S. yields than previously predicted, and we now expect the spread for 10-year yields to end the year at -30 basis points. From a fundamental perspective, spreads do not have much room to narrow further, in our view. Some signs already show that the manufacturing sector is benefiting from the U.S. recovery, and the weak currency could intensify this dynamic, encouraging a rise by inflation. Rate cut expectations should wane as these signs mount up.

Graph 15 – Yields fell at all maturities, but especially in the short end of the curve



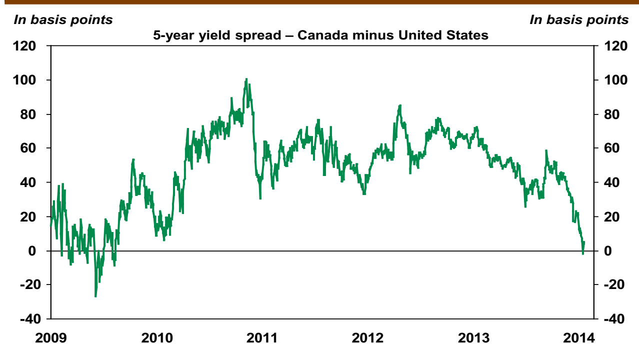
* Bank of Canada.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 16 – The narrowing of spreads at short maturities was consistent with the depreciation of the currency



Sources: Bloomberg and Desjardins, Economic Studies

Graph 17 – 5-year Canadian rate recently passed under U.S. rates

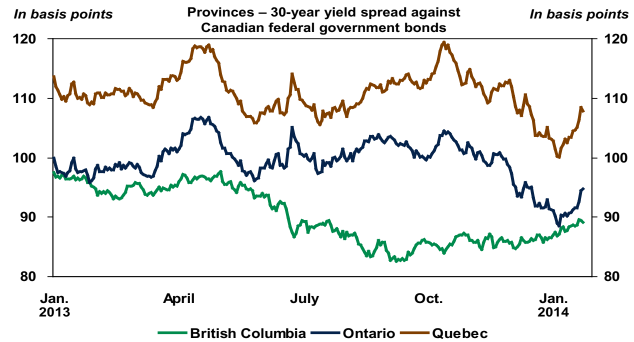


Sources: Bloomberg and Desjardins, Economic Studies

PROVINCIAL AND CORPORATE BONDS

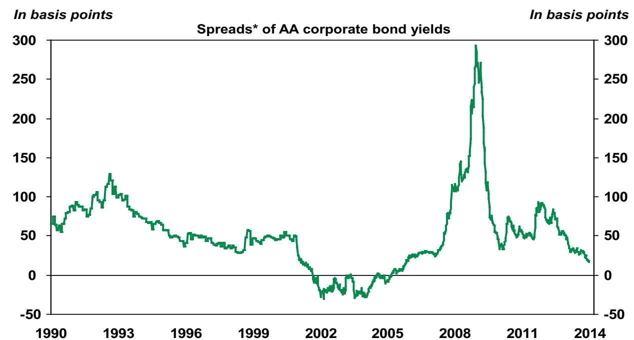
- After contracting substantially last fall, the yield spread between provincial and Canadian bonds stabilized somewhat in early 2014. Note that the spreads are currently very narrow (graph 18). Ontario's spread for 30-year bonds hit 90 basis points recently, its lowest point in almost two years. The same holds true for Quebec's 30-year bonds, where the spread against Canadian bonds of that maturity fell to 100 basis points recently.
- All the same, the interprovincial dynamic maintained the spread between Quebec and Ontario yields; the spread had widened in September, as speculations over possible elections in Quebec ran rampant. Although this scenario never materialized, the spread has continued to fluctuate between 11 and 14 basis points since. In contrast, British Columbia's bonds performed well against Ontario's last fall. Although we can take for granted that the western provinces' economies will continue to grow more quickly than the economies of Quebec and Ontario, the weaker Canadian dollar could stimulate the latter's manufacturing sectors, a situation that could translate into stronger economic growth and higher government revenues than expected. In this scenario, the western provinces' bonds could have a hard time making additional gains against Quebec's and Ontario's.
- For corporate bonds, yield spreads remain rather low (graph 19), as the start of the year has been fairly uneventful for issuing. It seems there is limited room for additional narrowing, given current levels. However, heightened foreign interest (graph 20) in Canada's corporate sector should prevent any dramatic widening.

Graph 18 – Provincial spreads stopped shrinking at the beginning of the year



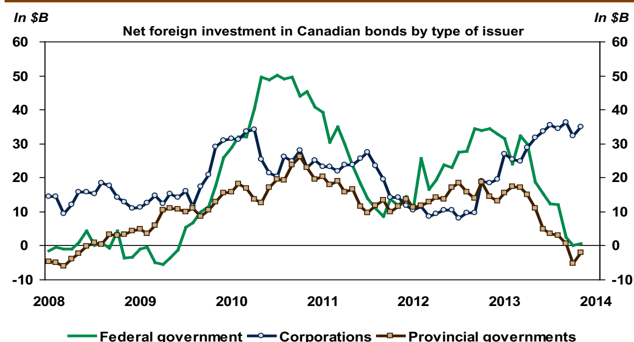
Sources: Desjardins, Capital Markets and Desjardins, Economic Studies

Graph 19 – Corporate spreads are at their lowest in almost a decade



* Against with federal government bond yields.
Sources: Datastream and Desjardins, Economic Studies

Graph 20 – Foreigners have demonstrated a strong interest in Canadian corporate bonds



Sources: Statistics Canada and Desjardins, Economic Studies

Table 1
Key interest rates

End of period in %	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1f	2014 Q2f	2014 Q3f	2014 Q4f	2015 Q1f	2015 Q2f	2015 Q3f	2015 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	0.50	1.00
Canada												
Overnight funds	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75
Euro zone												
Refinancing rate	0.75	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
United Kingdom												
Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
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*
October 2013			
25	Bank of Mexico	-25 b.p.	3.50
30	Reserve Bank of New Zealand	s.q.	2.50
30	Federal Reserve	s.q.	0,00 / 0,25
31	Bank of Japan	s.q.	0.10
November 2013			
4	Reserve Bank of Australia	s.q.	2.50
7	European Central Bank	-25 b.p.	0.25
7	Bank of England	s.q.	0.50
21	Bank of Japan	s.q.	0.10
27	Bank of Brazil	+50 b.p.	10.00
December 2013			
2	Reserve Bank of Australia	s.q.	2.50
4	Bank of Canada	s.q.	1.00
5	European Central Bank	s.q.	0.25
5	Bank of England	s.q.	0.50
5	Bank of Norway	s.q.	1.50
6	Bank of Mexico	s.q.	3.50
11	Reserve Bank of New Zealand	s.q.	2.50
12	Swiss National Bank	s.q.	0.00
17	Bank of Sweden	-25 b.p.	0.75
18	Federal Reserve	s.q.	0,00 / 0,25
20	Bank of Japan	s.q.	0.10
January 2014			
9	European Central Bank	s.q.	0.25
9	Bank of England	s.q.	0.50
15	Bank of Brazil	+50 b.p.	10.50
22	Bank of Canada	s.q.	1.00
22	Bank of Japan	---	---

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

Table 3
Coming soon

Date	*Central Bank*
January 2014	
29	Federal Reserve
30	Reserve Bank of New Zealand
31	Bank of Mexico
February 2014	
4	Reserve Bank of Australia
6	European Central Bank
6	Bank of England
12	Bank of Sweden
18	Bank of Japan
26	Bank of Brazil
March 2014	
4	Reserve Bank of Australia
5	Bank of Canada
6	European Central Bank
6	Bank of England
11	Bank of Japan
13	Reserve Bank of New Zealand
19	Federal Reserve
20	Swiss National Bank
21	Bank of Mexico
27	Bank of Norway
April 2014	
1	Reserve Bank of Australia
2	Bank of Brazil
3	European Central Bank
8	Bank of Sweden
8	Bank of Japan
10	Bank of England
16	Bank of Canada

Source: Desjardins, Economic Studies

Table 4
United States: fixed income market

End of period in %	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1f	2014 Q2f	2014 Q3f	2014 Q4f	2015 Q1f	2015 Q2f	2015 Q3f	2015 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	0.50	1.00
Treasury bills												
3-month	0.07	0.04	0.02	0.07	0.10	0.15	0.20	0.25	0.25	0.30	0.65	1.15
Federal bonds												
2-year	0.25	0.34	0.32	0.36	0.45	0.60	0.80	1.05	1.30	1.65	1.95	2.30
5-year	0.74	1.36	1.36	1.71	1.80	1.90	2.05	2.25	2.50	2.70	2.90	3.10
10-year	1.85	2.48	2.62	3.01	3.10	3.25	3.40	3.60	3.70	3.75	3.80	3.85
30-year	3.11	3.50	3.69	3.94	3.95	4.00	4.05	4.15	4.20	4.25	4.30	4.35
Yield curve												
5-year - 3-month	0.67	1.32	1.34	1.64	1.70	1.75	1.85	2.00	2.25	2.40	2.25	1.95
10-year - 2-year	1.60	2.14	2.30	2.65	2.65	2.65	2.60	2.55	2.40	2.10	1.85	1.55
30-year - 3-month	3.04	3.46	3.67	3.87	3.85	3.85	3.85	3.90	3.95	3.95	3.65	3.20

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

Table 5
Canada: fixed income market

End of period in %	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1f	2014 Q2f	2014 Q3f	2014 Q4f	2015 Q1f	2015 Q2f	2015 Q3f	2015 Q4f
Key rate												
Overnight funds	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75
Treasury bills												
3-month	0.97	1.02	0.98	0.91	0.95	1.00	1.00	1.00	1.00	1.05	1.40	1.85
Federal bonds												
2-year	1.00	1.22	1.19	1.14	1.05	1.20	1.35	1.55	1.75	2.05	2.30	2.55
5-year	1.30	1.80	1.86	1.96	1.85	2.05	2.20	2.40	2.60	2.80	3.00	3.20
10-year	1.76	2.44	2.54	2.78	2.85	3.00	3.15	3.30	3.40	3.45	3.50	3.55
30-year	2.51	2.90	3.07	3.24	3.25	3.40	3.50	3.60	3.70	3.75	3.80	3.85
Yield curve												
5-year - 3-month	0.33	0.78	0.88	1.05	0.90	1.05	1.20	1.40	1.60	1.75	1.60	1.35
10-year - 2-year	0.76	1.22	1.35	1.64	1.80	1.80	1.80	1.75	1.65	1.40	1.20	1.00
30-year - 3-month	1.54	1.88	2.09	2.33	2.30	2.40	2.50	2.60	2.70	2.70	2.40	2.00
Spreads (Canada - U.S.)												
3-month	0.90	0.98	0.96	0.84	0.85	0.85	0.80	0.75	0.75	0.75	0.75	0.70
2-year	0.75	0.88	0.87	0.78	0.60	0.60	0.55	0.50	0.45	0.40	0.35	0.25
5-year	0.56	0.44	0.50	0.25	0.05	0.15	0.15	0.15	0.10	0.10	0.10	0.10
10-year	-0.09	-0.04	-0.08	-0.23	-0.25	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30
30-year	-0.60	-0.60	-0.62	-0.70	-0.70	-0.60	-0.55	-0.55	-0.50	-0.50	-0.50	-0.50

f: forecasts
Sources: Datastream and Desjardins, Economic Studies