The Yield Curve

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The return of uncertainty favours the bond market

HIGHLIGHTS

- After a difficult year in 2013, the North American bond markets have been holding their own in the first months of 2014, even with the reduction of the Federal Reserve's bond purchases.
- Worries about emerging countries and bad U.S. economic data account for many investors' renewed interest in bonds.
- Clearly, a large portion of the sudden change in the U.S. economy is due to weather conditions. Janet Yellen and her colleagues will have to ask themselves whether the weather is the only culprit, or whether a pullback in growth is coming back to haunt the U.S. economy.
- Ongoing fairly weak inflation and the significant downside risks that still exist will lead the Bank of Canada to wait until the fall of 2015 before raising the target for the overnight rate.

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Editorial

After a difficult year in 2013, the North American bond markets have been holding their own in the first months of 2014. The U.S. 10-year yield, which hit 3.00% at the end of 2013, is now hovering around 2.65%. Thanks to the dovish comments by the Bank of Canada (BoC), Canadian bonds have fared even better, with nearly a 40 basis point decline in the 10-year yield, to around 2.45%. These trends are good news for investors who have invested in the bond market. In Canada, the DEX Universe Bond Index has gain over 2.50% since the start of 2014.

This positive performance of the bond market is especially impressive, given that the Federal Reserve (Fed) started reducing its bond purchases last December. Keep in mind that last spring, the first hints that the Fed might start tapering its purchases drove long-term bond yields up by more than 1%, which quickly worried the U.S. monetary authorities. But now that the Fed has turned its words into action, the markets have remained unperturbed; the recent decline in yields occurred despite a reduction in the Fed's monthly bond purchases between December and February, to the tune of US$20 billion per month.

THANKS TO THE EMERGING COUNTRIES AND THE WEATHER

Some developments with disturbing implications for the global economy account for many investors' renewed interest in bonds. Considerable political turmoil in some emerging countries (Turkey, Ukraine, Thailand, etc.) has been added to the economic slowdown that has been observed in many major countries (Brazil, India and, to a lesser extent, China). When some signs of contagion appeared, at the end of January, concerns arouse about another crisis similar to the Asian crisis of 1997–1998, driving up tensions in the international financial markets and generating strong demand for safe-haven securities. Those concerns have abated in the past few weeks, since

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Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.
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the existence of floating exchange rates in many emerging countries and large currency reserves are limiting the risk of a major financial crisis.

However, recent events in the emerging countries and the necessity for those countries to hike their interest rates to support their currencies and avoid an outflow of capital confirm that they cannot be counted on for any acceleration in the global economy this year. Therefore, firming growth in the industrialized countries, first and foremost the United States, is becoming even more crucial in shaping financial market trends in 2014. In these circumstances, bonds benefited from the release of some very disappointing U.S. economic statistics in recent weeks. Already, the job creation that was reported at the beginning of January was surprisingly weak, but things deteriorated in February, when nearly all the U.S. economic statistics fell far short of expectations.

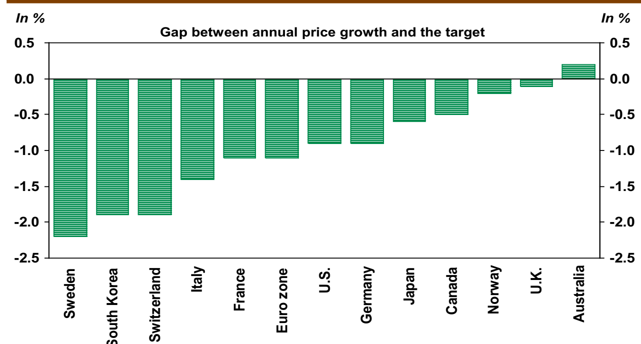
Under normal conditions, such disappointing data could have generated an even more favourable reaction for the bond market. However, for the time being, both investors and the central banks are staying relatively calm, since indications are that the extremely bad weather since the beginning of the winter is largely to blame for the rough patch that the U.S. economy is going through. The facts that a) some pullback in the U.S. economy was foreseeable after a surprisingly strong second half of 2013, and b) an agreement to defer the federal debt ceiling by one year removed the last political obstacle to an acceleration of the U.S. economy, also give reason to stay fairly optimistic. Despite all that, the downside risks for the U.S. economy have clearly increased in recent weeks, and should the data continue to disappoint, the Fed might soon decide to take a break in its bond purchase tapering.

SPRING COULD BE THE TURNING POINT OF 2014

At this point, many of the major central banks need to review their strategy. In the United States and the United Kingdom, all indications are that the unemployment rate thresholds that had been set for starting to contemplate key interest rate hikes will soon be reached, and the central banks need to change the way they signal to the markets that their key rates will stay at floor level for a long while yet. In Japan and the euro zone, gloomy outlooks for growth and inflation are forcing the central banks to remain in easing mode, and even to consider new measures. At the BoC, the arrival of a new governor who seems to have less confidence in econometric models, and the departure of some important deputy governors, are also generating uncertainty about what direction monetary policy will take.

Even though the frameworks of monetary policy seem to have been changing constantly since the last crisis, the decisions of the major central banks in the medium term will continue to mainly reflect outlooks for the economy and inflation. Right now, the widespread weakness of inflation in the industrialized economies (graph 1) is giving the central banks plenty of manoeuvring room for keeping interest rates at very stimulative levels. Therefore, there is no suggestion of monetary tightening this year. As inflation gradually edges up toward the central banks' targets, however, rate hikes will become a possibility in 2015 in those countries where economic growth attains a satisfactory pace.

Graph 1 – In many of the industrialized countries, inflation is well below the levels that central banks would like to see



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

Our bond yield scenarios have been revised downwards for the next few months, since investors will wait for a confirmation of a spring rebound in economic activity in the United States before they start to demand significantly higher returns. Our targets for the end of the year have not changed but, as is the case for our economic scenarios, the downside risks have clearly intensified. If the U.S. economy's rough patch lasts much longer, the Fed will be forced to extend its bond purchase program; this could keep 10-year yields below 3% for several months.

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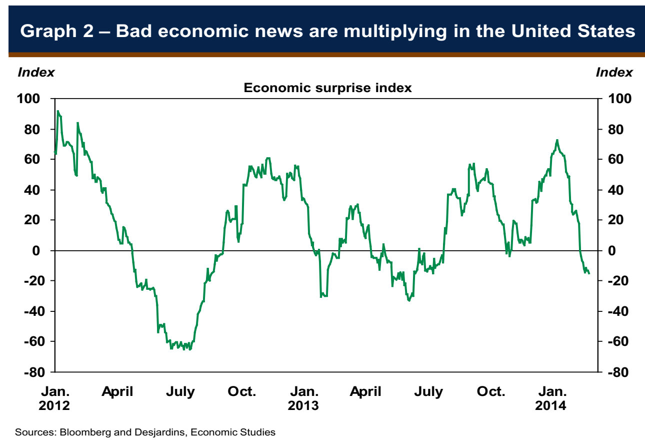
FEDERAL RESERVE

Will bad economic news make the Fed hesitate?

- Some economic data were already showing signs of weakness when the Federal Reserve (Fed) officials met for their last meeting chaired by Ben Bernanke at the end of January. Since at that point the bad news was not of broad scope, and the confidence climate was benefiting from the budget agreement in Washington, the Fed decided to keep reducing its asset purchases at the same pace as was begun in December. Accordingly, the amount of assets purchased fell to US$65 billion. When the Fed's new Chair, Janet Yellen, testified before a Congress committee, she reiterated that the tapering of purchases would continue at the same pace as long as the economic situation did not change too much.
- Since then, disappointing economic indicators have kept coming, and the index monitoring surprises between consensus expectations and the results released is practically in free fall (graph 2). Clearly, a large portion of the sudden change in the economy is due to weather conditions. An intense cold has had the Northeast and the Midwest in its grip, and temperatures have also dropped well below normal over a large portion of the southern United States. On top of this there have been record amounts of precipitation. At the same time, California is suffering a drought. The U.S. economy seems to be reacting to this adverse weather: retail sales, housing starts, job creation, manufacturing indexes, new orders, industrial production and home resales have all declined recently.
- Janet Yellen and her colleagues will have to ask themselves whether the weather is the only culprit, or whether a pullback in growth is coming back to haunt the U.S. economy. The next indicators will therefore be key, but unfortunately, the weather conditions seem again to have been difficult in February. The ISM manufacturing index stayed relatively low and we should not expect any big rallies in employment (graph 3). The Fed will no doubt keep its fingers crossed for a quick return to stronger growth, and it can take some comfort in the few data that are not showing all that much weakness, such as consumer confidence, existing home prices and new homes sales (graph 4). Our own scenarios for real GDP growth have been revised downwards for the first quarter, but we expect more robust growth in the spring.

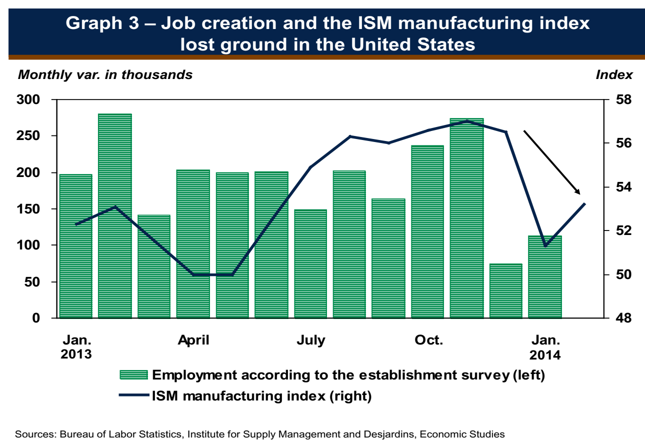
Forecasts: The Fed will probably maintain the same pace of asset purchase tapering, i.e. US$10B at each meeting, but the risk of a pause in March or April has sharpened. As for key rates, we do not anticipate any hike before September 2015.

Graph 2 – Bad economic news are multiplying in the United States



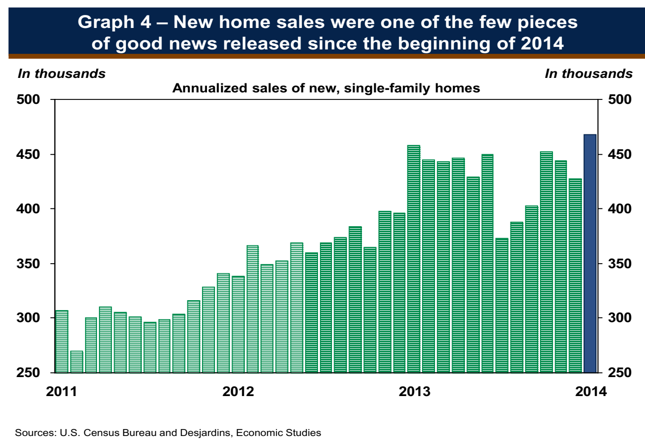
Sources: Bloomberg and Desjardins, Economic Studies

Graph 3 – Job creation and the ISM manufacturing index lost ground in the United States



Sources: Bureau of Labor Statistics, Institute for Supply Management and Desjardins, Economic Studies

Graph 4 – New home sales were one of the few pieces of good news released since the beginning of 2014



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

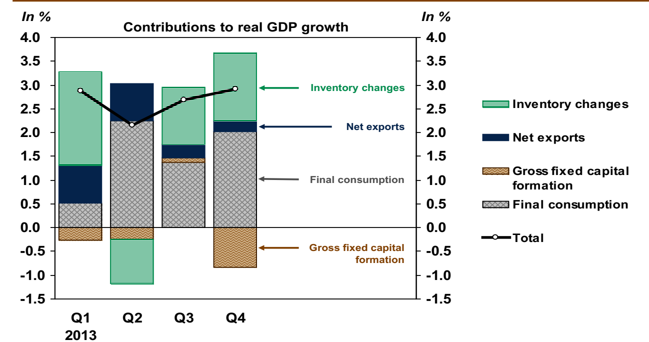
BANK OF CANADA

The risks are still high, despite the recent surge in inflation

- Real GDP grew at an annualized pace of 2.9% in the fourth quarter of 2013. However, the numbers are deceiving in some respects. The bulk of fourth-quarter growth is supported by consumption and inventories (graph 5). A consumption performance like that will be difficult to repeat in future quarters, because households are increasingly inclined towards caution, due to their high debt levels. As for inventories, the increase recorded in the fourth quarter is one of the highest since 1981. In these conditions, a negative contribution from inventories is highly likely in the forthcoming quarters.
- The Canadian economy gave a disappointing performance in December, with the majority of the economic indicators losing a significant amount of ground. Moreover, real GDP by industry declined by 0.5% during the month. However, it is likely that the bulk of this weakness is attributable to the particularly difficult weather conditions that buffeted certain parts of the country in December. The Canadian economy should therefore pick up steam early in 2014.
- The real GDP growth of the fourth quarter further narrowed the negative output gap. A return to full potential is not expected until the end of 2015, which should bring the total number of years with excess production capacity to six. Thus, upwards pressure on prices will be very weak.
- The annual change in the total CPI rose from 1.2% in December 2013 to 1.5% in January 2014, which somewhat relieved concerns about overly slow price growth. However, major disinflationary forces are still at work, to the extent that the annual total inflation rate could soon fall back close to the bottom threshold of 1%. In addition to a significant excess supply in the Canadian economy, fierce competition in the retail sector is continuing to promote fairly weak growth in consumer prices. Therefore, caution is still the watchword as far as inflation is concerned. In fact, in its latest *Monetary Policy Report*, the BoC stated that “The degree of uncertainty around the inflation forecast, and the range of weaker-than-projected outcomes in particular, are important considerations for policy in light of the low level of inflation and the recent series of downside surprises.”

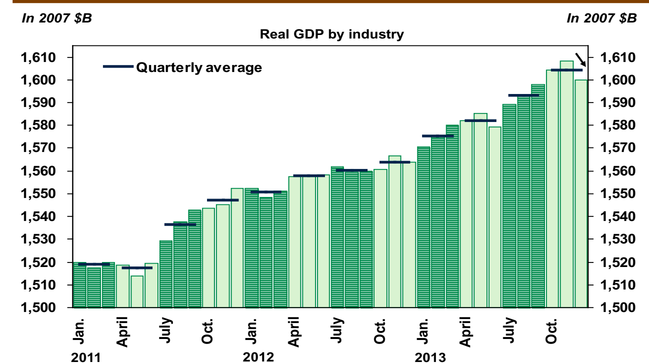
Forecasts: Ongoing fairly weak inflation and the significant downside risks that still exist will lead the BoC to wait until the fall of 2015 before raising the target for the overnight rate.

Graph 5 – Consumption and inventories made a strong contribution to growth in the fourth quarter of 2013



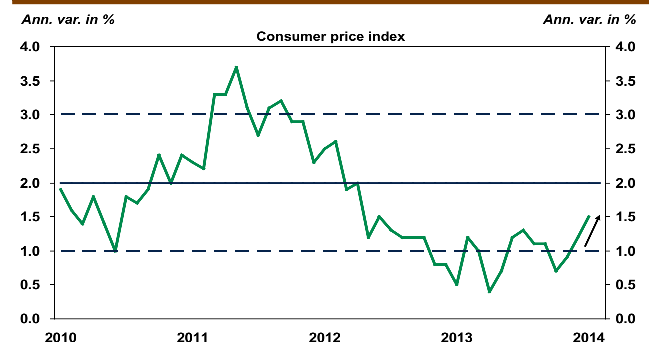
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 6 – The fourth quarter of 2013 ended on a negative note in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 7 – Total inflation has risen a bit in Canada since last December



Sources: Statistics Canada and Desjardins, Economic Studies

OVERSEAS CENTRAL BANK

The Bank of England takes its distance from the unemployment rate

EUROPEAN CENTRAL BANK (ECB)

- The ECB left its monetary policy unchanged in February, but left the door open to some action in March. Mario Draghi reminded us that the ECB's official outlooks will be updated, and that a downward revision to the inflation scenario would justify further easing. Although economic growth was slightly stronger than expected in the last quarter of 2013, this did not prevent inflation from falling short of expectations and reaching a cyclical low of 0.7%. Key rates in the euro zone are already very low, but there is still a bit of room to lower them further. The ECB is even contemplating a negative interest rate for its deposit facility. Other, unconventional tools could also be used to try to stimulate credit.

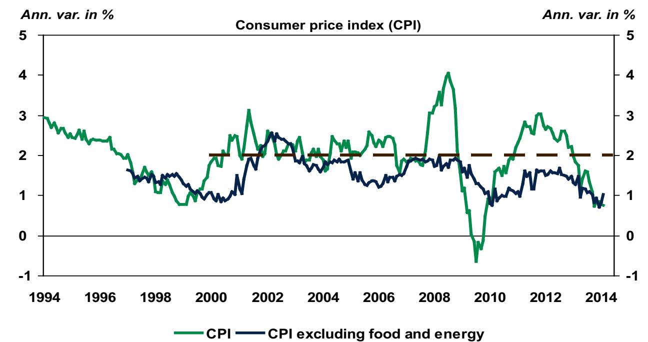
BANK OF ENGLAND (BoE)

- The BoE took a risky gamble last August by attaching its monetary policy to the trend in the unemployment rate. It perceived this indicator as a more effective way of communicating its intention to keep its key rates low for an extended period. But since then, the unemployment rate has fallen much faster than anticipated, fueling expectations of monetary tightening; this forced the BoE to revise its message in February. Once the unemployment rate reaches 7%, the BoE will base its decisions on several variables that can be used to measure the level of excess capacity in the economy, the strength of the recovery and inflationary pressures. While the British economy is on a sound footing, the BoE believes that there is still plenty of excess capacity, and that inflation is not a threat in the medium term. Many investors are nevertheless counting on some monetary tightening by the end of this year. As for us, the lack of urgency shown by the BoE encourages us to call for a first interest rate hike in the second quarter of 2015.

BANK OF JAPAN (BoJ)

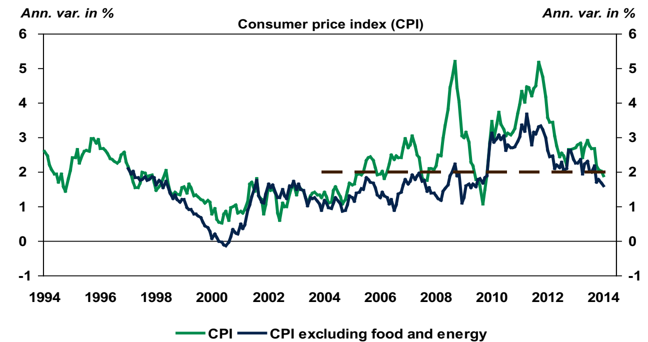
- In February, the BoJ announced that it would extend three loan programs to the banks, which were drawing to a close. It also announced some improvements. In particular, the banks will be able to draw twice the amount of funds from the central bank when they increase their credit volume. The asset purchase program was not changed, however. Standing at 1.4%, total inflation is moving closer to the target, but it still has a long way to go if fresh food and energy prices are excluded. The BoJ will probably have to extend its asset purchases into 2015 in order to sustainably reach its inflation target. Should the economy falter after the sales tax is raised, in April, the BoJ may also have to increase the pace of its asset purchases.

Graph 8 – Inflation rate in the euro zone



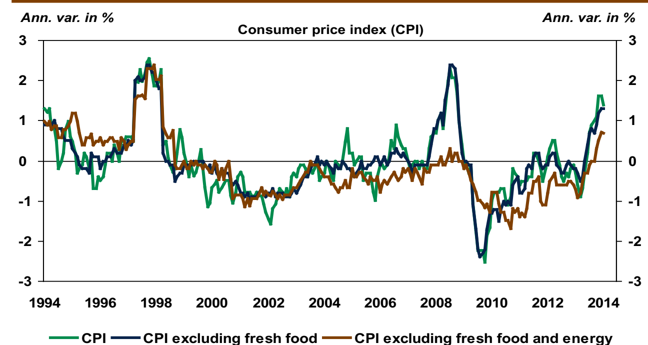
Sources: Datastream and Desjardins, Economic Studies

Graph 9 – Inflation rate in the United Kingdom



Sources: Datastream and Desjardins, Economic Studies

Graph 10 – Inflation rate in Japan



Sources: Datastream and Desjardins, Economic Studies

BOND MARKET

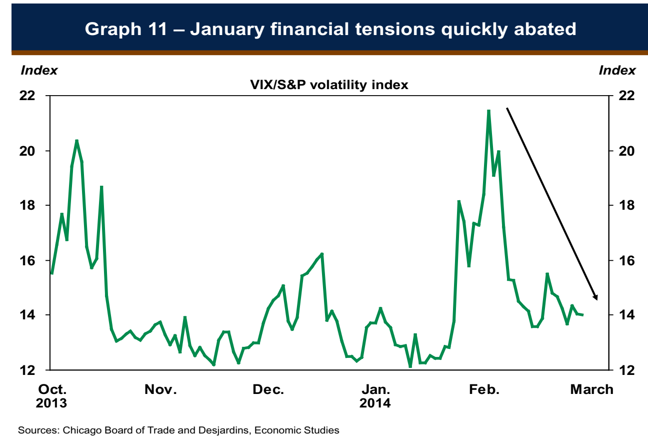
Health of the U.S. economy: the markets wait for more clarity

U.S. FEDERAL BONDS

- After a surprising surge in January, the bond market was a bit more stable in February. The 10-year yield, which hit a 2.58% low on February 3, rallied in the early part of the month, fluctuating within a fairly narrow range around 2.75% before dipping late in the month on tensions in Ukraine. Some of the forces that had pushed the yields down in January lost in strength. The energetic interventions by the central banks of some emerging countries to support their currencies calmed investors' risk aversion to some extent (graph 11). The ensuing rebound of the S&P 500 helped to break the momentum of the bond market. Arguably, yields would have even risen even faster, were it not for a wave of disappointing economic data out of the United States (graph 12).
- There is no doubt that the tough winter in the United States is distorting the picture, with many of the reports that accompanied disappointing data citing bad weather as an aggravating factor. In general, periods of distortion in data due to weather are followed by rebounds when the situation returns to normal, but a degree of uncertainty will continue to prevail in the short term, which will provide support to bonds. The difficulty in distinguishing between the noise caused by the weather, and the possibility that the economy might be losing steam after a strong performance in the second half of 2013, will limit risk-taking.
- Federal Reserve (Fed) officials appear to be unflustered by the bad news, but as far as both the broad perspective of the job market and inflation are concerned, there is nothing to cause them to adopt a more hawkish stance any time soon. The dominant risk is that of an extended slowdown (beyond temporary disruptions) that would encourage the Fed to react, e.g. by announcing a pause in the tapering of its monthly asset purchases. While the direct effect of such an action would probably be fairly benign, a signal that the Fed was more concerned about the state of the economy would trigger a downwards movement in yields, especially since inflation is persistently weak (graph 13).

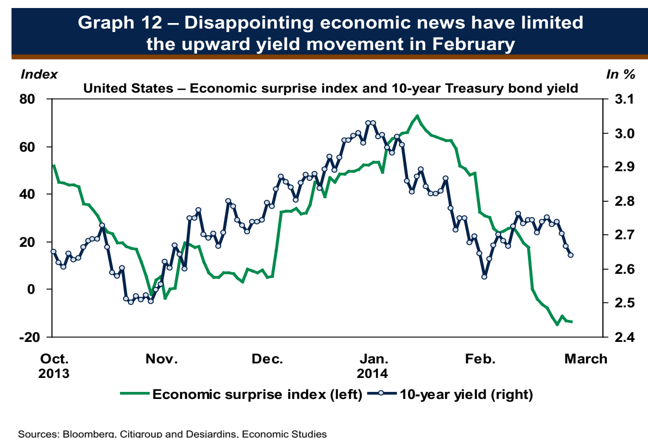
Forecasts: We are making some downwards revisions to our bond yield forecast for the immediate time horizon. It should take longer for the 3.0% mark to be reached, compared with our former scenario, but we are holding onto our 3.6% target for year end, while acknowledging the downside risk should the slowdown extend beyond the next few months. Under the core assumption of a relatively temporary rough patch, the fact that Fed officials appear determined to normalize monetary policy, and the unlikelihood of any change in horizon for the first key rate hike, will probably promote the resumption of an upwards trajectory for bond yields.

Graph 11 – January financial tensions quickly abated



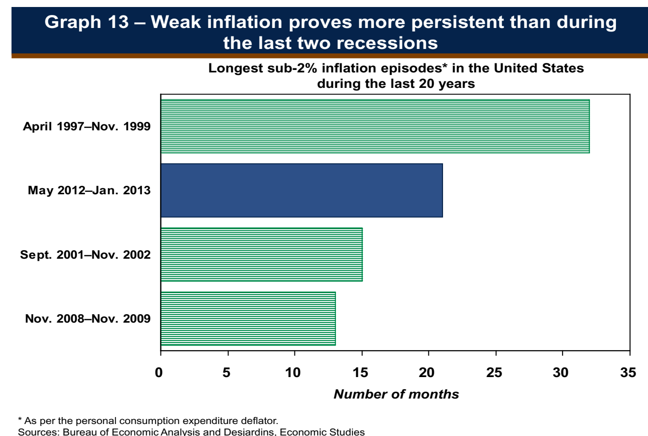
Sources: Chicago Board of Trade and Desjardins, Economic Studies

Graph 12 – Disappointing economic news have limited the upward yield movement in February



Sources: Bloomberg, Citigroup and Desjardins, Economic Studies

Graph 13 – Weak inflation proves more persistent than during the last two recessions



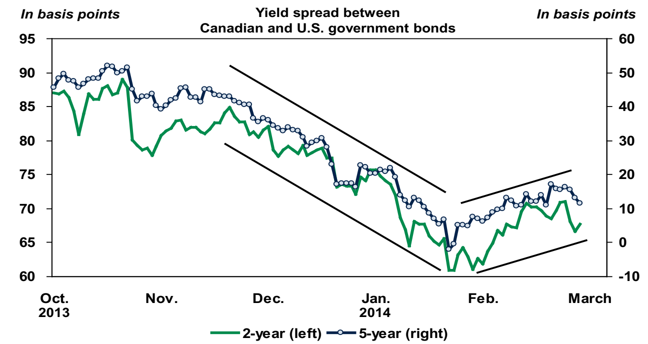
* As per the personal consumption expenditure deflator.
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

CANADIAN FEDERAL BONDS

- We have maintained the assumption that anticipations monetary easing in Canada would fade as inflation started showing signs of life. This dynamic has started to materialize, and bond yield spreads with the United States have widened in the short end of the curve, reversing some of the narrowing that occurred during the autumn. The 2-year spread briefly returned above 70 basis points, while the 5-year spread stands in the 10-15 basis-point range after a brief foray into negative territory in January. The slopes of the 2/10, 2/5 and 5/10 curves have also steepened somewhat recently (graph 14).
- Given that the Governor of the Bank of Canada (BoC), Stephen Poloz, recently declared that the weakness of inflation was keeping him awake at night, the latest reading of the consumer price index offers some comfort. At an annual variation of 1.5% in January, inflation has reached an 18-month peak. Although inflation remains below the BoC's official target on a nationwide basis, the fact that five provinces are showing a rate of inflation above that target at least helps alleviate concerns about deflation, hence reducing the probability that interest rates might be lowered (graph 15).
- This being said, two points need to be kept in mind: 1) inflation could drop again in February due to a base year effect which will boost the denominator in the calculation of the year-over-year variation, and 2) the BoC's outlook scenario is founded on a rebound in net exports, with the BoC clearly stating that the weaker dollar should encourage that scenario. Even though the BoC maintains that it is not seeking to influence the exchange rate, implicitly, one can imagine that the BoC would oppose a too-rapid re-appreciation of the loonie (graph 16) by maintaining a dovish tone to the extent possible. In a scenario where inflation moved towards the target more slowly than we expect, the BoC could send signals giving the impression that it will start its monetary tightening quite some time later than the Fed. Such stance could also be considered if inflation were to move in the right direction, but exports took more time to recover. Remember that, according to Stephen Poloz, sales and greater profitability for exporters are the first step towards the goal of more balanced growth.

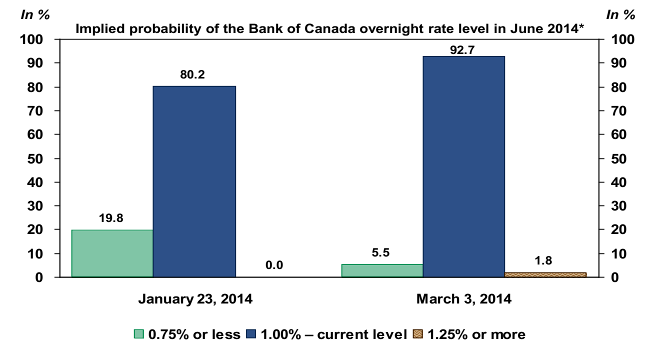
Forecasts: We are adjusting our yield targets downwards for the first half of the year, given the surprising strength of the bond market at the beginning of the year. We now expect the 3.0% threshold to be reached by the 10-year yield only by mid-year. On the other hand, leaning on the assumption of improving economic data, we are keeping our target for the end of this year at 3.3%. The yields of short-term bonds could still be subject to some upward pressure, but since expectations of BoC easing have ebbed somewhat, such pressures are likely to be limited and follow similar movements in the long end, such that the potential for the curve to flatten appears to be limited. Instead, we are tabling on a slight steepening by the end of 2014, especially since the BoC does not seem ready to abandon its slightly dovish tone.

Graph 14 – Spreads at shorter maturities widened slightly in February



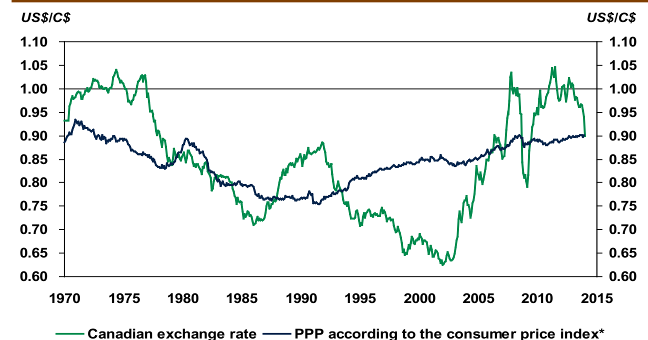
Sources: Bloomberg and Desjardins, Economic Studies

Graph 15 – The scenario of a rate cut by mid-year has lost credibility



* According to 3-month overnight index swaps.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 16 – The Bank of Canada will likely prefer the currency to remain close to its equilibrium level

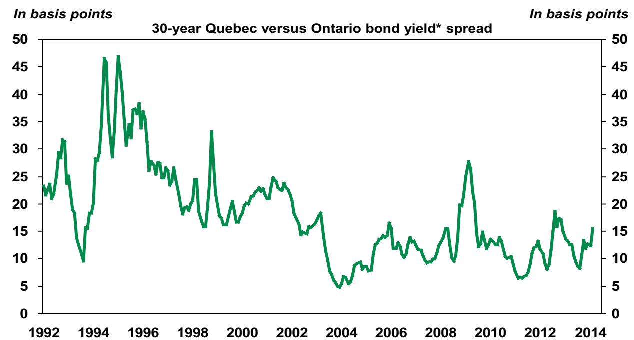


* Estimate according to a base period that began in 1970, when the Canadian dollar was first allowed to float.
Sources: Datastream and Desjardins, Economic Studies

PROVINCIAL AND CORPORATE BONDS

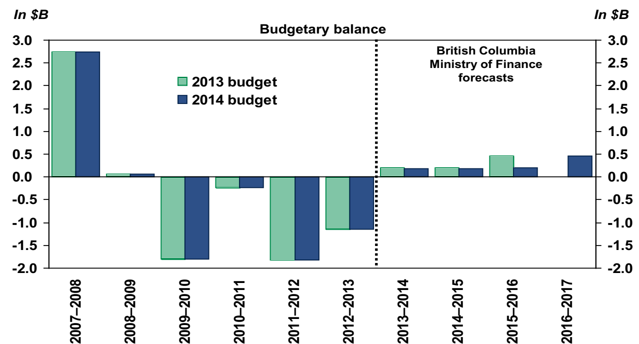
- Quebec provincial bonds went through some more difficult times recently. The spread between the 30-year yield and the federal benchmark bond yield widened further from mid-February onwards, and was a little less than 105 basis points at month-end. The government tabled its budget for the 2014–2015 fiscal year, which contained few surprises. The government expects total debt issuance, estimated at $19.3B in 2013–2014, to come down to $15.4B during the next fiscal year. Meanwhile, the government carried out $4.1B of pre-funding in 2013–2014, reducing the need to borrow in 2014–2015. More than the budget (which received cautious approval from the rating agencies), it is the prospect of a spring election that seems to be behind the widening of spreads, as are the voting intention polls, which indicate a rather tight race. In an election campaign scenario, the spreads could widen a little up until voting day. At the time of the last provincial elections, in 2012, the spread expanded to 18 points. Recently it was less than 16 points (graph 17).
- Ontario and British Columbia bonds fared better in February, benefiting from waning risk aversion until the end of the month. Yield spreads to the Canadian federal 30-year bond narrowed close to their January lows, and widened slightly thereafter. The British Columbia government tabled its budget, which showed an estimated surplus in 2013–2014, which should be maintained in 2014–2015 (graph 18), as well as a decline in new borrowings for the coming fiscal year and the two subsequent ones. With a balanced budget, a AAA credit rating and growth that could benefit from the boom in the liquefied natural gas industry in the years to come, bonds of British Columbia could continue to outperform those of the central provinces, which are still facing sizable budget deficits.
- As for corporate bonds, spreads are still fluctuating around their historic lows. Indications are that investors are still allowing generous weight to this class of assets in their portfolios (graph 19), while foreign demand has been generally solid during the past year. Few issuers presented themselves to the markets in February, even though it must be said that many of them had made a head start on their 2014 borrowing, around the end of 2013. The issues (coming mainly from the financial and real estate sector) were generally met with healthy demand. With the expected increase in federal government yields and the robust demand for corporate bonds, the spreads could be subject to further downwards pressure, although this will be partially mitigated by an increase in issuance activity beginning in the spring.

Graph 17 – Quebec bonds have underperformed against those of Ontario recently



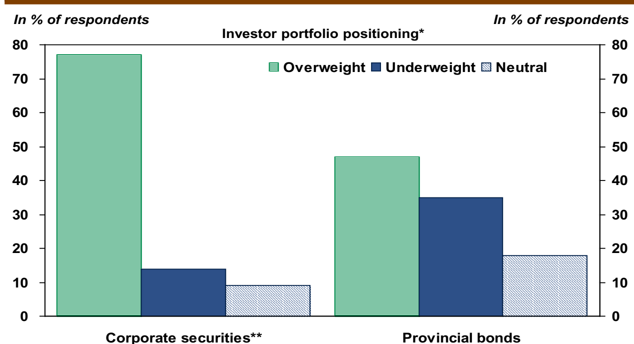
* Constant maturity, monthly average.
Sources: Desjardins, Capital Markets and Desjardins, Economic Studies

Graph 18 – The British Columbia government eliminates its deficit as it had planned



Sources: British Columbia Ministry of Finance and Desjardins, Economic Studies

Graph 19 – Corporate securities remain well regarded by investors



* Institutional survey conducted by Desjardins, Capital Markets, results for January 2014; ** Five-year deposit notes.
Sources: Desjardins, Capital Markets 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	0.75	1.00	1.25
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
December 2013			
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
21-22	Bank of Japan	---	---
22	Bank of Canada	s.q.	1.00
29	Reserve Bank of New Zealand	s.q.	2.50
29	Federal Reserve	s.q.	0.00 / 0.25
31	Bank of Mexico	s.q.	3.50
February 2014			
3	Reserve Bank of Australia	s.q.	2.50
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
13	Bank of Sweden	s.q.	0.75
17-18	Bank of Japan	---	---
26	Bank of Brazil	+25 b.p.	10.75
March 2014			
3	Reserve Bank of Australia	s.q.	2.50

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

Table 3
Coming soon

Date	Central Bank
March 2014	
5	Bank of Canada
6	European Central Bank
6	Bank of England
10-11	Bank of Japan
12	Reserve Bank of New Zealand
19	Federal Reserve
20	Swiss National Bank
21	Bank of Mexico
27	Bank of Norway
31	Reserve Bank of Australia
April 2014	
2	Bank of Brazil
3	European Central Bank
7-8	Bank of Japan
9	Bank of Sweden
10	Bank of England
16	Bank of Canada
23	Reserve Bank of New Zealand
25	Bank of Mexico
30	Bank of Japan
30	Federal Reserve
May 2014	
6	Reserve Bank of Australia
8	European Central Bank
8	Bank of England
8	Bank of Norway
20-21	Bank of Japan
28	Bank of Brazil

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	0.40	0.60	0.80	1.05	1.30	1.65	1.95	2.30
5-year	0.74	1.36	1.36	1.71	1.65	1.85	2.05	2.25	2.50	2.70	2.90	3.10
10-year	1.85	2.48	2.62	3.01	2.90	3.10	3.35	3.60	3.70	3.75	3.80	3.85
30-year	3.11	3.50	3.69	3.94	3.85	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	1.55	1.70	1.85	2.00	2.25	2.40	2.25	1.95
10-year - 2-year	1.60	2.14	2.30	2.65	2.50	2.50	2.55	2.55	2.40	2.10	1.85	1.55
30-year - 3-month	3.04	3.46	3.67	3.87	3.75	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	0.90	0.95	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	1.15	1.35	1.55	1.75	2.05	2.30	2.55
5-year	1.30	1.80	1.86	1.96	1.75	2.00	2.20	2.40	2.60	2.80	3.00	3.20
10-year	1.76	2.44	2.54	2.78	2.65	2.85	3.10	3.30	3.40	3.45	3.50	3.55
30-year	2.51	2.90	3.07	3.24	3.15	3.35	3.45	3.60	3.70	3.75	3.80	3.85
Yield curve												
5-year - 3-month	0.33	0.78	0.88	1.05	0.85	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	1.60	1.70	1.75	1.75	1.65	1.40	1.20	1.00
30-year - 3-month	1.54	1.88	2.09	2.33	2.25	2.40	2.45	2.60	2.70	2.70	2.40	2.00
Spreads (Canada - U.S.)												
3-month	0.90	0.98	0.96	0.84	0.80	0.80	0.80	0.75	0.75	0.75	0.75	0.70
2-year	0.75	0.88	0.87	0.78	0.65	0.55	0.55	0.50	0.45	0.40	0.35	0.25
5-year	0.56	0.44	0.50	0.25	0.10	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	-0.65	-0.60	-0.55	-0.50	-0.50	-0.50	-0.50

f: forecasts
Sources: Datastream and Desjardins, Economic Studies