The Yield Curve

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Key interest rates could stay relatively low in the medium term

HIGHLIGHTS

- The bond market is continuing its surprising performance. Contrary to what was observed in April, the yields of shorter-term bonds have also declined in May.
- Recent weeks have strengthened our perception that bond market trends are not reflecting the economic environment. While the spring rebound in the U.S. economy appears to be asserting itself, we also note rising inflation in many countries.
- The growing perception that the central banks will raise their key interest rates in a gradual and limited fashion supports the bond market.
- Concerns about disinflation in Canada are definitely behind us, and the risks surrounding inflation trends are more balanced. It now remains to be seen whether this will be enough to induce the Governor of the Bank of Canada to adopt a somewhat less worried message.
- There now seems to be a consensus among the European Central Bank (ECB) officials to take action in June. It remains to be seen whether the ECB will choose an asset purchase program, negative interest rates, or more targeted measures to expand credit.

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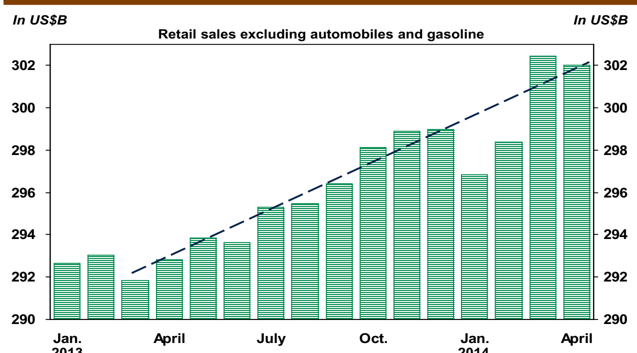
Editorial

The bond market is continuing its surprising performance. Far from recovering, long-term bond yields have kept following their downwards trend; the U.S. 10-year yield even fell below 2.50%. Contrary to what was observed in April, the yields of shorter-term bonds have also declined, with the U.S. 2-year and 5-year yields dropping by more than 5 and 15 basis points, respectively, since May 1.

GROWTH AND INFLATION PICK UP STEAM

Recent weeks have strengthened our perception that bond market trends are not reflecting the economic environment. Some analysts might justify the weakness of bond yields by the downturn in the U.S. economy in the first quarter and by the pullback in retail sales and industrial production in April. However, if we look at the trend in U.S. data, it is clearly evident that activity has resumed a good pace of growth after the rough patch seen in the beginning of the year (graph 1). Furthermore, the bond market has completely ignored the latest housing data, nearly all of which exceeded expectations, thereby alleviating the main concern that currently hangs over the U.S. economy.

Graph 1 – After the ups and downs caused by the harsh winter, U.S. sales have resumed their trend



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

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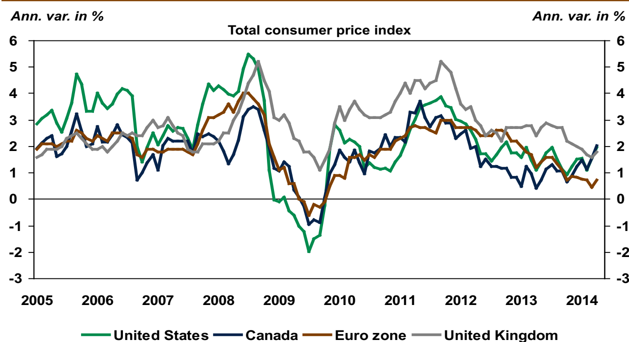
Finally, we must not lose sight of the excellent data from the U.S. job market in April, which pushed the average monthly job creation since the beginning of 2014 to nearly 215,000 and the jobless rate to a cyclical low of 6.3%.

While the spring rebound in the U.S. economy appears to be asserting itself, we also note rising inflation in many countries (graph 2). In both the United States and Canada, the annual inflation rate reached 2% in April, and even core inflation is showing clear signs of acceleration. In the United States, the Federal Reserve (Fed) is basing its monetary policy on the annual variation in the personal consumption expenditure deflator. This price indicator is still fairly weak, but it is also showing signs of acceleration, which should reassure the monetary authorities. Inflation has also rebounded recently in the United Kingdom, which could complicate the Bank of England's (BoE) job. In the euro zone, however, the risk of lasting, too low inflation is still serious, justifying further monetary easing.

Graph 2 – Inflation has accelerated in many countries, but is still very low in the euro zone



Sources: Bureau of Labor Statistics, Statistics Canada, Office for National Statistics, Eurostat and Desjardins, Economic Studies

KEY INTEREST RATE HIKES: MORE LIMITED, BUT NOT ANY LATER

We still think that the search for yield of which we spoke last month is contributing to the weakness of bond yields, especially in the long portion of the yield curve. However, the recent downturn in yields also seems to reflect the market's perception that interest rate hikes will be very gradual, and that key interest rates will not climb as high as they did during the most recent monetary firming cycles. In the past, the Fed and the Bank of Canada (BoC) usually raised their main policy rate to more than 4% at the end of monetary firming cycles. Things may be different this time, mainly for two reasons.

First of all, less favourable demographic trends will reduce the potential for economic growth, generating a slight dip in the key interest rate equilibrium level in the long term. Secondly, there is reason to believe that some headwinds will persist in the medium term, which will encourage the central banks to limit their interest rate hikes. In the United States, the long-term consequences of the financial crisis and relatively tight credit conditions could limit the necessity of raising key interest rates. Headwinds are particularly likely to prevail in Canada, where high levels of household debt and the sustained effort that will be required to repair public finances, particularly in Quebec and Ontario, will hold economic growth in check for several years.

The growing perception that the central banks will raise their key interest rates in a gradual and limited fashion is also supported by several comments along those lines by central bankers. However, it is important to understand that this does not imply that they will wait longer before starting monetary firming. On the contrary: some BoE officials recently acknowledged that it could be argued that the more gradual the intended rise in Bank Rate, the earlier it might be necessary to start tightening policy.

REVISIONS TO OUR SCENARIOS FOR NORTH AMERICAN BOND YIELDS

The recent signs of acceleration in the economy and rising prices confirm that the Fed and the BoC are slowly heading towards monetary firming. We are still calling for an initial rate hike in September 2015 in the United States; as for the BoC, it could wait until October, given the federal election timetable. With this in mind, we still believe that the weakness of bond yields is exaggerated, and that a significant upturn should occur in the next few quarters, to better reflect the economic environment.

However, we have revised the level towards which the key interest rates will move in the medium term, downwards, to 3.50% in the United States and 3.00% in Canada. This leads us to forecast a more limited upturn in bond yields than we had previously anticipated.

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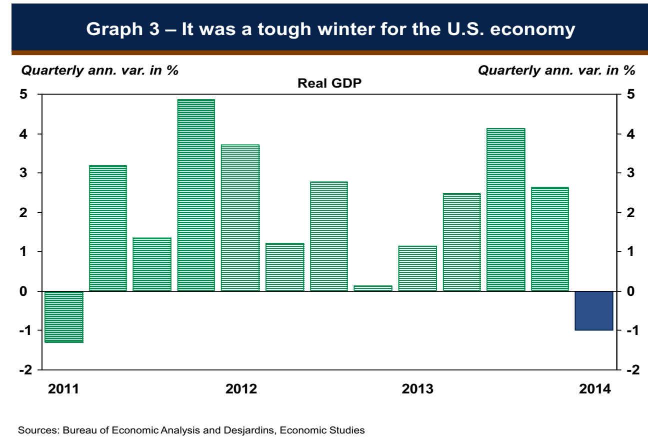
FEDERAL RESERVE

The Federal Reserve is confident of a spring rebound in the economy

- The economic problems that were experienced in the first quarter, confirmed by the 1.0% drop in real GDP at an annualized rate (graph 3), might have made Federal Reserve (Fed) officials hesitate when they met at the end of April. Instead, they stayed on course, reducing their asset purchases by US$10B once again, thus maintaining the pace that has been in effect since the tapering began. They were betting on an improvement in the spring, and it appears to be materializing. In a speech given at the beginning of May, Janet Yellen testified that "a rebound in spending and production is already under way, putting the overall economy on track for solid growth in the current quarter." Admittedly, growth in retail sales and industrial production was disappointing in April, but this does not wipe out the significant gains that were recorded in March. Moreover, job creation was particularly strong in April, with 288,000 new hirings and a decline in the jobless rate to 6.3%. Consequently, real GDP growth of nearly 4.0% is forecast for the second quarter.
- In that same speech, the Fed Chair mentioned the disappointing trend in the housing market. This sector had trouble coping with the abrupt increase in interest rates that occurred last year. Fortunately, many housing market indicators improved in April (graph 4) although the gains are fairly modest in relation to the weakness that has been recorded since the summer of 2013. In order for the housing market to continue its recovery in a viable fashion, mortgage lending conditions would need to ease further to offset the natural increase in interest rates at this point of the economic cycle. But in the last quarter, what actually happened was the reverse (graph 5).
- The fragility of the housing sector will encourage the Fed to be cautious in its messages in the upcoming quarters and, subsequently, in its key interest rate hikes. Although inflation is slowly nearing the Fed's target, it will remain modest enough to give plenty of leeway to Janet Yellen and her colleagues. The return of interest rates to more normal levels in the years to come is likely to be very gradual, and it is now forecast that, when that happens, the equilibrium level of key interest rates will be lower than where it stood prior to the bursting of the real estate bubble.

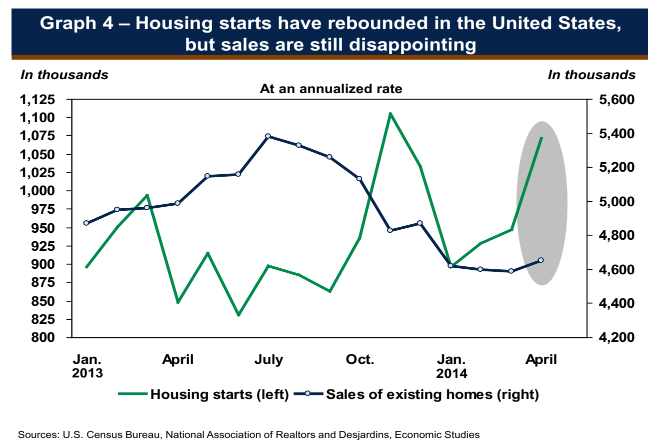
Forecasts: The Fed will probably maintain its current pace of asset purchase cutbacks, i.e. to the tune of US$10B at each meeting until the end of the tapering program, in the fall of 2014. As for key interest rates, we do not foresee any hike before September 2015.

Graph 3 – It was a tough winter for the U.S. economy



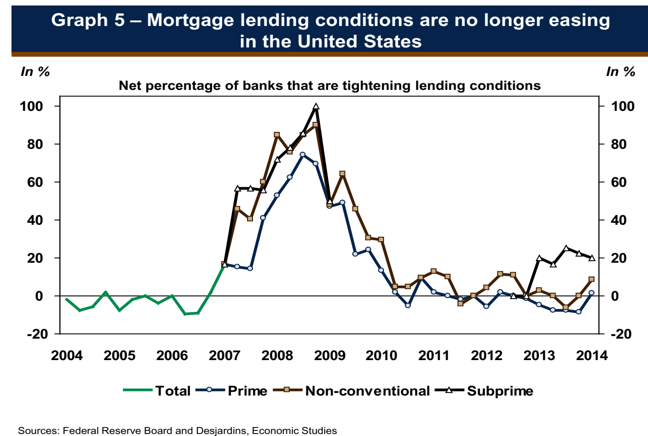
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 4 – Housing starts have rebounded in the United States, but sales are still disappointing



Sources: U.S. Census Bureau, National Association of Realtors and Desjardins, Economic Studies

Graph 5 – Mortgage lending conditions are no longer easing in the United States



Sources: Federal Reserve Board and Desjardins, Economic Studies

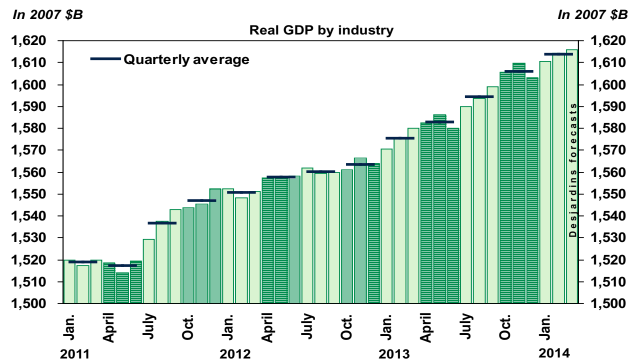
BANK OF CANADA

Inflation has already returned to the median target

- The recent developments in the Canadian economy have turned out to be generally more positive than the forecasts put forward by the Bank of Canada (BoC).
- Real GDP by industry rose by 0.5% in January and by 0.2% in February. March wound up with an uptick of 0.1% according to our estimates. All this suggests that the first quarter of 2014 as a whole will show growth of 1.9% (graph 6). In all likelihood, Canadian economic growth will exceed the BoC's forecast for the period, which was a gain of just 1.5%.
- The total annual inflation rate rose from 1.5% in March to 2.0% in April, thus returning to the median target. According to our projections, the total annual inflation rate will stay in the neighbourhood of 2.0% in the months to come (graph 7). This forecast is higher than that of the BoC, which is anticipating average growth of 1.6% for the second quarter overall.
- The annual variation in the BoC's core inflation index (CPIX), which came in at 1.4% in April, is holding fairly steady, having remained between 1.1% and 1.4% for the past 15 months. That said, the situation could soon change, since the seasonally adjusted monthly CPIX growth figures have accelerated recently. The annual variation in the CPIX could reach the 2% median target around the end of 2014 or beginning of 2015. This forecast is quite different from the BoC's, which expects inflation measured by the core index to rise gradually, reaching 2.0% no sooner than the beginning of 2016.
- The risk of inflation continuing to rise and significantly surpassing the BoC's median target is fairly low. Not only does the Canadian economy still have excess production capacity (graph 8), but domestic demand is showing signs of losing steam. The fight against budget deficits is limiting government spending, the real estate market seems to be stabilizing, and consumer spending saw tougher times over the winter, especially as far as goods are concerned.

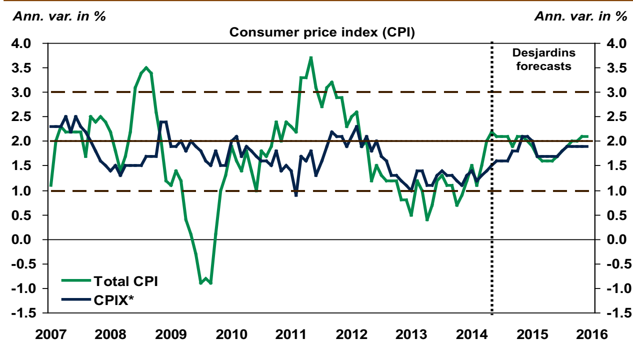
Forecasts: Concerns about disinflation are definitely behind us, and the risks surrounding inflation trends are more balanced. It now remains to be seen whether this will be enough to induce the Governor of the BoC to adopt a somewhat less worried message. That said, any cut in key interest rates would be highly inappropriate in these circumstances. But we will still have to wait a good while before any initial hike is ordered, as there is still a considerable degree of uncertainty surrounding Canadian economic outlooks. Therefore, the first hike in the target for the overnight rate is forecast for the fall of 2015.

Graph 6 – Heading towards 1.9% growth in the first quarter of 2014



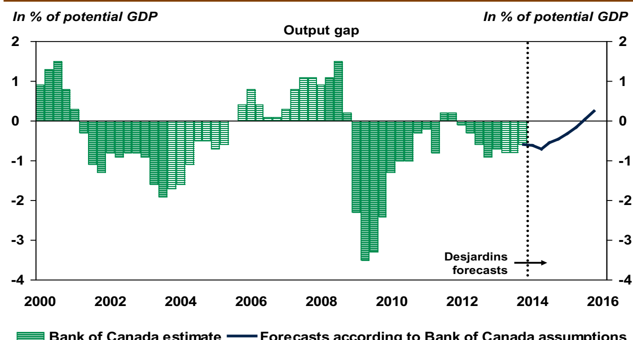
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 7 – Canadian inflation is moving towards the median target



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

Graph 8 – The excess capacity in the Canadian economy will subsist until the end of 2015



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

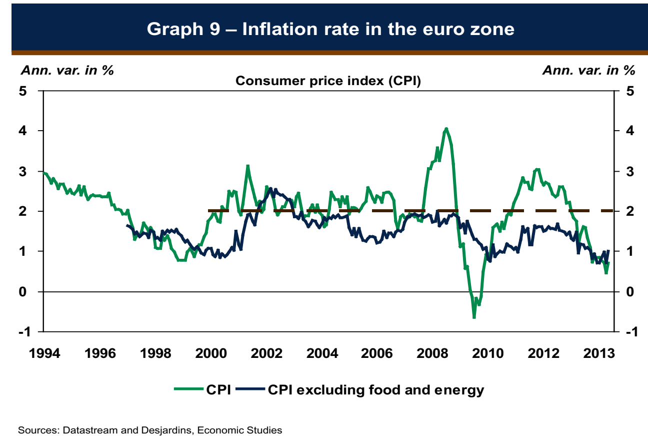
OVERSEAS CENTRAL BANK

High expectations of action by the European Central Bank

EUROPEAN CENTRAL BANK (ECB)

- Even though the ECB made no real change to its press release at its last monetary policy meeting, held on May 8, expectations of an imminent intervention have nevertheless heightened considerably. ECB President Mario Draghi was actually very explicit during the press conference that accompanied the May decision. There now seems to be a consensus among the ECB officials to take action in June, once the new forecasts of economic growth and inflation have been consulted. The latest data available do not suggest that those forecasts will be more optimistic. Inflation is still weak, and the strength of the euro is aggravating the situation (graph 9). If no intervention is made in June, the euro could resume an upwards trend and once again jeopardize the possibility of inflation reaching the target in the medium term. It remains to be seen whether the ECB will choose an asset purchase program, negative interest rates, or more targeted measures to expand credit.

Graph 9 – Inflation rate in the euro zone

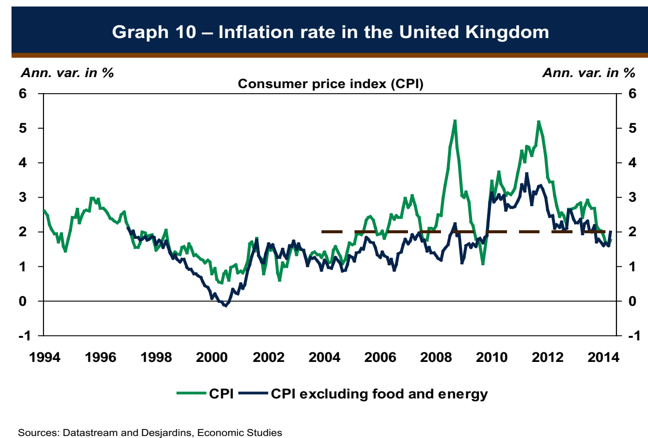


Sources: Datastream and Desjardins, Economic Studies

BANK OF ENGLAND (BoE)

- The minutes of the May monetary policy meeting revealed some interesting information. First of all, the BoE is still fairly confident that the British economy is recovering, even though growth was a little more sluggish than expected in the first quarter. Then, there seems to be great diversity of opinion about the excess capacity in the economy and future developments in monetary policy. In particular, some members of the monetary policy committee believe that if the key interest rate is to be raised gradually, the monetary firming process should begin sooner. We are still calling for a 25 basis point increase each quarter, starting in the spring of 2015... provided that inflation does not rise too quickly (graph 10).

Graph 10 – Inflation rate in the United Kingdom

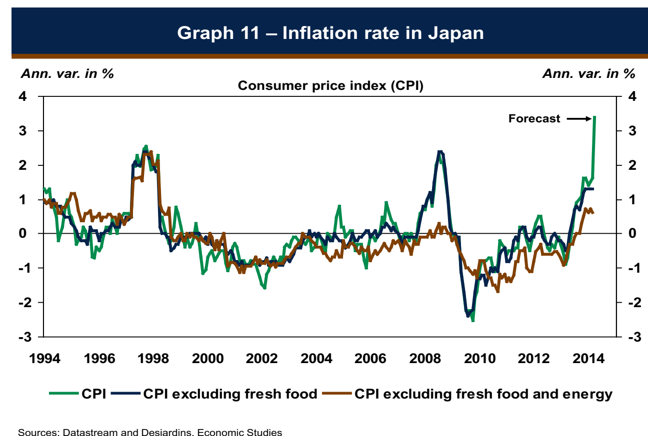


Sources: Datastream and Desjardins, Economic Studies

BANK OF JAPAN (BoJ)

- Inflation in Japan is heading towards a huge jump in April (graph 11). It will likely exceed 3% for the first time since 1991. However, we should not interpret this as a sign that the BoJ may soon reduce its interventions. The spurt in inflation is mainly due to an increase in the sales tax, which was hiked from 5% to 8% in April. Since the effect on inflation will not be permanent, the BoJ will need to continue its asset purchases in order to sustainably attain its target. Even the improvement in economic data in the first quarter does not suggest that the BoJ will pull back on the throttle. Consumer spending shot up in March in anticipation of the raising of the sales tax. A pullback is expected in the second quarter, which could even lead the BoJ to announce further monetary easing measures.

Graph 11 – Inflation rate in Japan



Sources: Datastream and Desjardins, Economic Studies

BOND MARKET

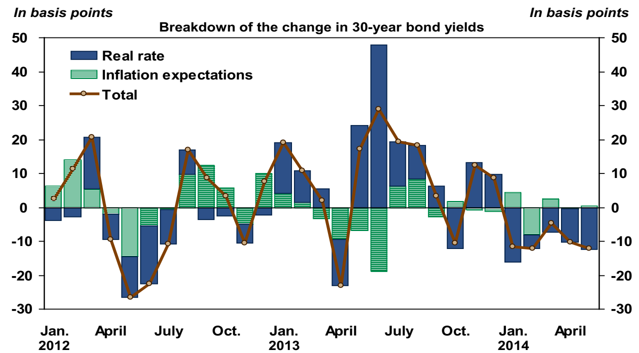
Rates will take more time to normalize

U.S. FEDERAL BONDS

- While it is true that the bond market has been remarkably strong since the start of the year, we also note that, up until May, this phenomenon largely affected the longer end of the curve, which was influenced by plunging real rates (graph 12). In May, not only have long-term yields kept falling over most of the month, but yields on shorter maturities fell as well, causing the middle part of the curve to flatten: for example, the 2/5 slope has dropped close to its lowest point for the year (graph 13).
- The movement in yields seems rather disconnected from the fundamental reality. Although the U.S. economic data remains mixed overall, some higher-impact indicators, such as employment and the manufacturing and non-manufacturing ISM indexes, have painted a rather encouraging portrait, all in all. Household confidence held up, home sales posted a surprise increase, and the consumer price indexes firmed up.
- Nevertheless, investors seem to be waiting for more proof that the expected second-quarter rebound is occurring before coming to the conclusion that bonds are overvalued. Also note that the Federal Reserve (Fed) is adroitly wording its remarks, mindful as to prevent a repeat of the summer 2013 selloff. Although FOMC officials still have faith in the recovery after a difficult first quarter, they are not hesitating to refer to uncertainty about the scope of this rebound, as well as sharing some concerns about the housing sector. For example, Fed Chair Janet Yellen identified one limiting factor: the financial difficulties facing younger generations of potential buyers, which are manifesting via higher delinquencies on student loans, among other things (graph 14). We would not be surprised if the Fed wanted to avoid tossing oil onto the fire at all cost, especially since its preferred inflation indicator, the consumer expenditure deflator, is still giving it enough leeway to keep its dovish bias.

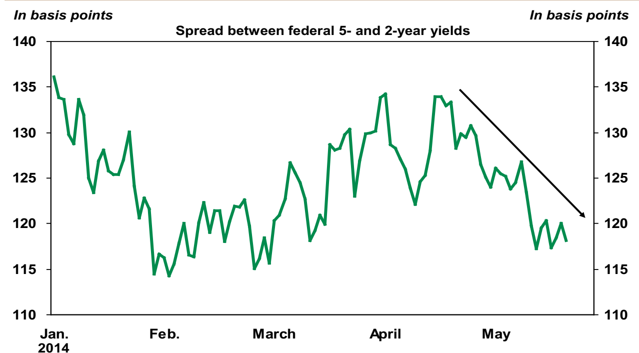
Forecasts: The very lively demand for bonds by some classes of investors, the ongoing deficit reduction, and eventual rate hikes that ought to be more gradual than usual are all factors pointing to a slower rise in rates than we had previously called for. Our forecast for the end of 2014 is now 3.25% for the 10-year yield, and 3.85% for the 30-year yield.

Graph 12 – The rally in long-term bond yields is drawing strength from the real component



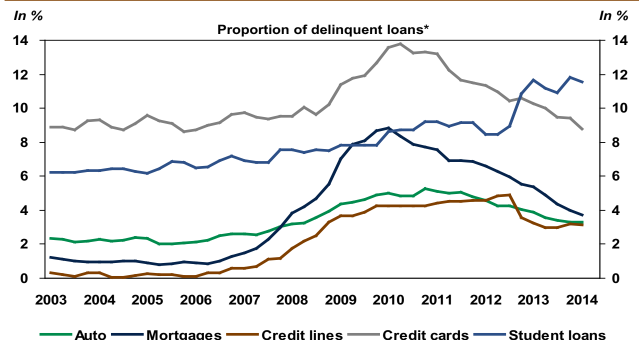
Sources: Bloomberg and Desjardins, Economic Studies

Graph 13 – The short part of the U.S. curve is flattening



Sources: Bloomberg and Desjardins, Economic Studies

Graph 14 – Payment difficulties have decreased for all loan categories, except for student loans



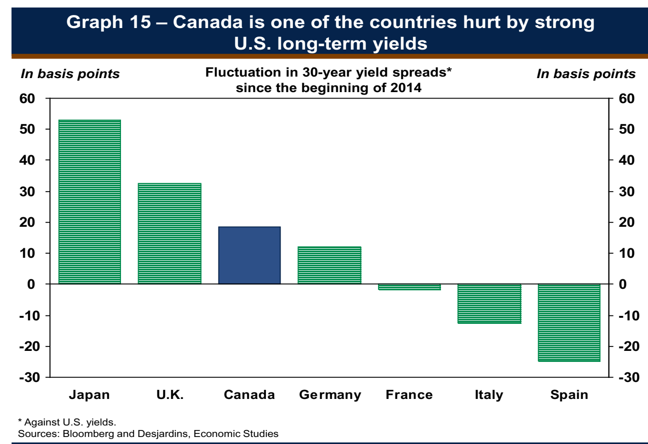
* Volume of loans 90 or more days in arrears, as a percentage of the total amount outstanding.
Sources: Federal Reserve of New York, Equifax and Desjardins, Economic Studies

CANADIAN FEDERAL BONDS

- The Canadian market was not entirely able to keep pace with U.S. bonds, and yield spreads widened slightly. The spread for 2-year yields recently moved back above 70 basis points, hitting the top of the fluctuation band for this year. The 5-year yield spread went up to around 5 basis points, after several forays into negative territory since early 2014. However, the reverse occurred for 30-year yields, and the spread returned to around -55 basis points after moving sharply upwards at the beginning of the year. Canadian long-term bonds are also among those that are struggling the most against U.S. bonds since January (graph 15).
- Besides the drop in short-term yields in the United States, the upswing in short-term spreads was also helped by the consumer price index, which returned to the Bank of Canada (BoC) target for the first time in two years. This event makes it hard to expect a move in the way of providing more accommodation in Canada, rather raising questions about the extent to which the BoC will adjust its language. Since last fall, the BoC's wording has maintained a negative influence on yield spreads, as well as on the currency, and we expect the BoC will continue this strategy. While the BoC has to acknowledge that the rebound in inflation exceeded its expectations, it will make up for it by highlighting the Canadian economy's current shortcomings. These include the still-unconvincing signs of a lasting transition to exports and investment as growth drivers. The restrictive effect of fiscal policy could also be invoked as a source of concern, since several provinces, unlike the federal government, will have to make an even greater effort to mop up their deficits (graph 16).
- In this context, and in light of the statements made by the BoC and Stephen Poloz, who has been in position for a year, we now believe that the next rate hike will not be ordered until Q4 2015, after the Fed has made a similar announcement. To a greater extent than for the Fed, we expect the monetary tightening cycle to be marked by numerous pauses, and to end, in the medium term, with policy rates below equilibrium (graph 17).

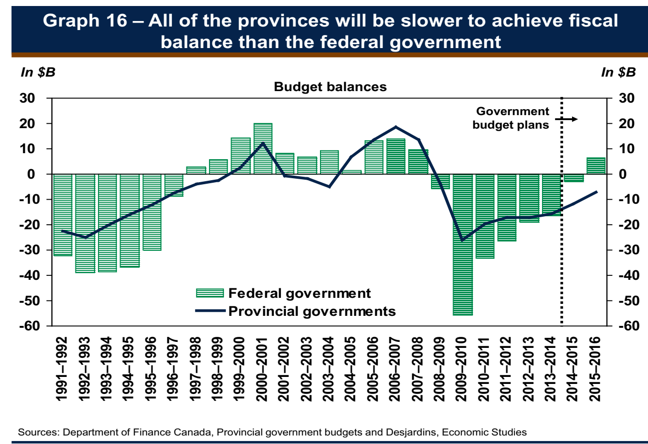
Forecasts: In keeping with the changes to our forecasts for North American central banks, we are downgrading our yield targets. Ten-year yields should therefore end the year at 2.90%, and 30-year yields at 3.25%. Given a BoC that is in even less of a hurry than the Fed to signal eventual monetary firming action, Canadian bonds should outperform U.S. bonds. We believe that the 2-year spread will end the year at 45 basis points, while the 5-year spread will slide back into negative territory, finishing 2014 at -5 basis points.

Graph 15 – Canada is one of the countries hurt by strong U.S. long-term yields



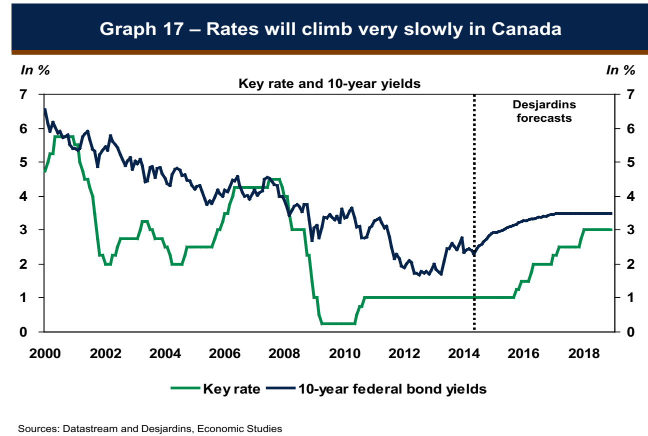
* Against U.S. yields.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 16 – All of the provinces will be slower to achieve fiscal balance than the federal government



Sources: Department of Finance Canada, Provincial government budgets and Desjardins, Economic Studies

Graph 17 – Rates will climb very slowly in Canada

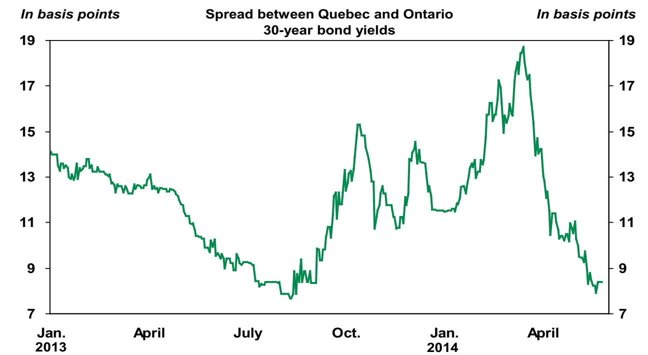


Sources: Datastream and Desjardins, Economic Studies

PROVINCIAL AND CORPORATE BONDS

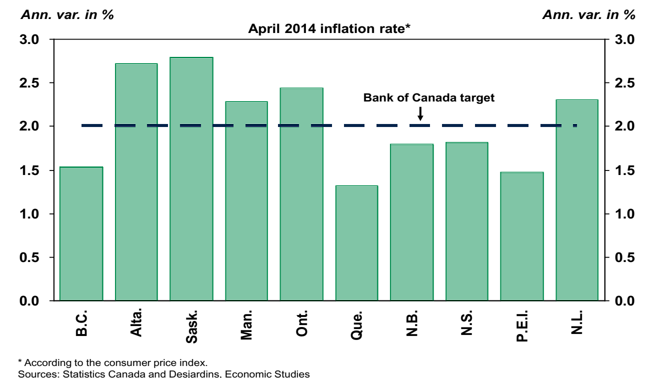
- Quebec bonds have been performing well since early spring. Unlike Ontario bonds, spreads against federal 30-year yields narrowed in April and May. This partially reflects the shift of electoral uncertainties to Ontario, where a campaign was kicked off just one month after the election held in Quebec. Nevertheless, we must expect Ontario's bonds to gain some strength after the vote on June 12, as was seen in Quebec. Meanwhile, the budget from the new Quebec government could reveal a slightly higher deficit for fiscal 2014–2015 than was announced in February, thereby increasing the expected volume of bonds to be issued. These factors would justify a re-widening of the spreads between Quebec and Ontario (graph 18).
- Beyond the coming events, provinces with deficits are counting on stronger economic growth and inflation to reach their deficit targets. For inflation, the latest statistics released are a bit more encouraging. Price growth is accelerating throughout the country, beating the BoC target in several provinces, including Ontario (graph 19). If this trend holds and economic growth turns around as expected, spreads to federal bonds could remain relatively narrow, all else equal, as fiscal updates from the provinces would probably point to less difficulty meeting their goals.
- Already quite popular with investors, Canadian corporate bonds could remain sought-after, as both the Statistics Canada survey on corporate profits and results for publicly listed corporations point to a prosperous beginning of the year. According to the official data, the rise in energy prices triggered a 66% increase in profits for oil and natural gas, which helped operating profits for non-financial corporations grow over 9%, their biggest increase in three years (graph 20). The conditions should, among other things, allow corporate securities to maintain their appeal within the foreign investor class. Net foreign holdings of corporate bonds increased from January to March, unlike holdings of federal and provincial bonds.

Graph 18 – The strength of Quebec bonds over Ontario bonds could be only temporary



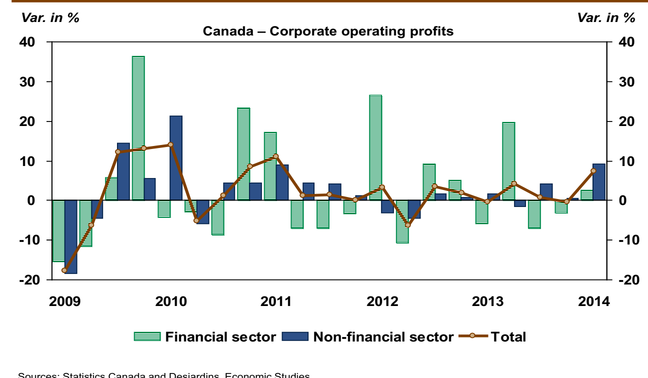
Sources: Desjardins, Capital Markets and Desjardins, Economic Studies

Graph 19 – Inflation is showing signs of picking up in several provinces



* According to the consumer price index.
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 20 – Non-financial businesses set the tone for profit growth in the first quarter



Sources: Statistics Canada and Desjardins, Economic Studies

Table 1
Key interest rates

End of period in %	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2f	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	0.50	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	1.00	1.50
Euro zone												
Refinancing rate	0.75	0.50	0.50	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10
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*
March 2014			
5	Bank of Canada	s.q.	1.00
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
10-11	Bank of Japan	---	---
12	Reserve Bank of New Zealand	+25 b.p.	2.75
19	Federal Reserve	s.q.	0.00 / 0.25
20	Swiss National Bank	s.q.	0.00
21	Bank of Mexico	s.q.	3.50
27	Bank of Norway	s.q.	1.50
31	Reserve Bank of Australia	s.q.	2.50
April 2014			
2	Bank of Brazil	+25 b.p.	11.00
3	European Central Bank	s.q.	0.25
7-8	Bank of Japan	---	---
9	Bank of Sweden	s.q.	0.75
10	Bank of England	s.q.	0.50
16	Bank of Canada	s.q.	1.00
23	Reserve Bank of New Zealand	+25 b.p.	3.00
25	Bank of Mexico	s.q.	3.50
30	Bank of Japan	---	---
30	Federal Reserve	s.q.	0.00 / 0.25
May 2014			
6	Reserve Bank of Australia	s.q.	2.50
8	European Central Bank	s.q.	0.25
8	Bank of England	s.q.	0.50
8	Bank of Norway	s.q.	1.50
20-21	Bank of Japan	---	---
28	Bank of Brazil	s.q.	11.00

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

Table 3
Coming soon

Date	*Central Bank*
June 2014	
3	Reserve Bank of Australia
4	Bank of Canada
5	European Central Bank
5	Bank of England
6	Bank of Mexico
11	Reserve Bank of New Zealand
12-13	Bank of Japan
18	Federal Reserve
19	Bank of Norway
19	Swiss National Bank
July 2014	
1	Reserve Bank of Australia
3	European Central Bank
3	Bank of Sweden
10	Bank of England
11	Bank of Mexico
14-15	Bank of Japan
16	Bank of Brazil
16	Bank of Canada
23	Reserve Bank of New Zealand
30	Federal Reserve
August 2014	
5	Reserve Bank of Australia
7	European Central Bank
7	Bank of England
7-8	Bank of Japan
September 2014	
2	Reserve Bank of Australia
3	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 Q1	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	0.05	0.10	0.15	0.20	0.25	0.30	0.65	1.15
Federal bonds												
2-year	0.25	0.34	0.32	0.36	0.39	0.45	0.70	1.00	1.25	1.50	1.75	2.00
5-year	0.74	1.36	1.36	1.71	1.71	1.70	1.95	2.20	2.40	2.60	2.80	3.00
10-year	1.85	2.48	2.62	3.01	2.73	2.65	3.00	3.25	3.35	3.45	3.55	3.65
30-year	3.11	3.50	3.69	3.94	3.56	3.50	3.70	3.85	3.95	4.00	4.05	4.10
Yield curve												
5-year - 3-month	0.67	1.32	1.34	1.64	1.66	1.60	1.80	2.00	2.15	2.30	2.15	1.85
10-year - 2-year	1.60	2.14	2.30	2.65	2.34	2.20	2.30	2.25	2.10	1.95	1.80	1.65
30-year - 3-month	3.04	3.46	3.67	3.87	3.51	3.40	3.55	3.65	3.70	3.70	3.40	2.95

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 Q1	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	1.00	1.50
Treasury bills												
3-month	0.97	1.02	0.98	0.91	0.89	0.95	1.00	1.00	1.00	1.00	1.20	1.50
Federal bonds												
2-year	1.00	1.22	1.19	1.14	1.07	1.15	1.30	1.45	1.60	1.75	1.95	2.15
5-year	1.30	1.80	1.86	1.96	1.71	1.70	1.95	2.15	2.35	2.55	2.70	2.85
10-year	1.76	2.44	2.54	2.78	2.46	2.40	2.65	2.90	2.95	3.05	3.15	3.25
30-year	2.51	2.90	3.07	3.24	2.96	2.90	3.10	3.25	3.40	3.45	3.50	3.55
Yield curve												
5-year - 3-month	0.33	0.78	0.88	1.05	0.82	0.75	0.95	1.15	1.35	1.55	1.50	1.35
10-year - 2-year	0.76	1.22	1.35	1.64	1.39	1.25	1.35	1.45	1.35	1.30	1.20	1.10
30-year - 3-month	1.54	1.88	2.09	2.33	2.07	1.95	2.10	2.25	2.40	2.45	2.30	2.05
Spreads (Canada - U.S.)												
3-month	0.90	0.98	0.96	0.84	0.84	0.85	0.85	0.80	0.75	0.70	0.55	0.35
2-year	0.75	0.88	0.87	0.78	0.68	0.70	0.60	0.45	0.35	0.25	0.20	0.15
5-year	0.56	0.44	0.50	0.25	-0.00	0.00	0.00	-0.05	-0.05	-0.05	-0.10	-0.15
10-year	-0.09	-0.04	-0.08	-0.23	-0.27	-0.25	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
30-year	-0.60	-0.60	-0.62	-0.70	-0.60	-0.60	-0.60	-0.60	-0.55	-0.55	-0.55	-0.55

f: forecasts
Sources: Datastream and Desjardins, Economic Studies