The Yield Curve

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Heading towards a livelier second half of the year

HIGHLIGHTS

- Recent weeks have been particularly challenging for U.S. bonds: the yields for terms from 2 to 30 years have posted increases ranging between 5 and 10 basis points. The market was ripe for a catch-up, considering that the improvement of macro indicators, which was already perceptible in May, had then been accompanied by yields moving further down.
- If the U.S. economy rallies as expected, the issue of inflation is likely to attract plenty of attention in the months to come. Some members of the monetary policy committee will want to tell the markets that the Federal Reserve is keeping a watchful eye on price trends.
- The situation is also becoming more complex for the Bank of Canada (BoC). The BoC will have to raise its inflation forecasts again in July, and it will be difficult for it to keep saying that the downside risks for inflation predominate. While it is entirely possible that the BoC might tone down its apprehensions about immediate downside risks for inflation, we expect that it will focus on certain areas of economic vulnerability.

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Editorial

After falling at the end of May close to their lowest levels of this year, bond yields edged back up slightly in June. Recent weeks have been particularly challenging for U.S. bonds: the yields for terms from 2 to 30 years have posted increases ranging between 5 and 10 basis points. Were it not for the fact that the June press release from the Federal Reserve (Fed) was practically unchanged, and that Chair Janet Yellen appeared to downplay the importance of the recent acceleration in inflation during a press conference, the upturn in U.S. yields could have been even more marked.

Contrary to U.S. yields, Canadian yields did not move much during the first part of June. As a result, the negative spread against U.S. yields widened; at one point it surpassed 15 basis points for 5-year terms and 35 points for 10-year terms. But the announcement on June 20 of a new surge in inflation, to 2.3% in May, generated a significant upswing in Canadian yields.

WIDENING DIVERGENCES BETWEEN THE CENTRAL BANKS

The past few weeks have clearly shown that the various major central banks are facing very different challenges. In the euro zone, the European Central Bank took action at its June meeting, announcing a series of monetary easing measures intended to boost credit and reduce the risk of deflation. As for the Bank of Japan, while it currently seems to be in wait-and-see mode, an eventual new action is still likely to be one of monetary easing.

The situation is quite different in the United Kingdom, where the Bank of England (BoE) is starting to seriously prepare the markets for monetary tightening. Faced with an economy that keeps showing an impressive pace of growth and a robust labour market, BoE officials felt it necessary to stress that the market appeared to underestimate the probability of monetary tightening before the end of 2014.

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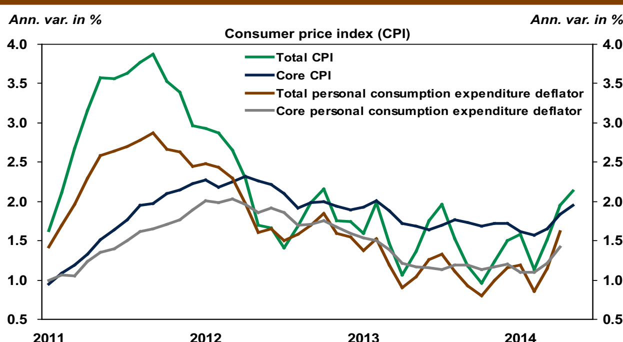
LIVELIER DEBATES AT THE FED ON THE HORIZON

The Fed seemed to be taking care not to adopt an overly hawkish tone at its June meeting. We must bear in mind that the contraction in GDP in the first quarter forced Fed officials to revise their growth forecast for the current year downwards significantly. In that context, we can understand their attempt to avoid too sharp a rise in bond yields, especially since some doubt persists about the strength of the recovery in the housing sector.

However, it cannot be denied that the U.S. economy has recently moved closer to the Fed's main targets. Just a few months ago, the jobless rate stood at 6.7% and the annual change in the personal consumption expenditure deflator was hovering around 1%. Today, the jobless rate is 6.3% and the deflator is posting annualized growth of 1.6%. Even though the Fed reiterated, in its press release, comments that the jobless rate was high and inflation below its 2% target, the trends in these two variables now suggest more limited manoeuvring room. In a recent presentation, the President of the St. Louis Fed, James Bullard, gave his assessment that the Fed had seldom in its entire history been so close to reaching its targets.

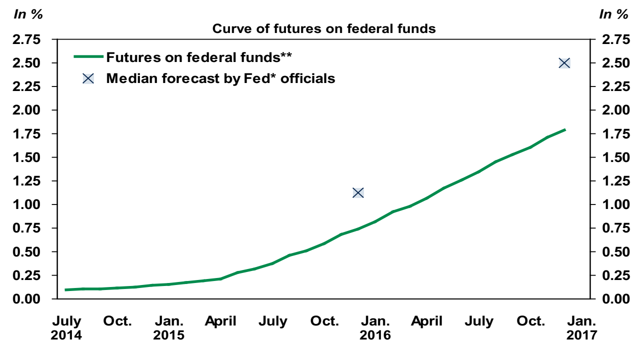
If the U.S. economy rallies as expected, the issue of inflation is likely to attract plenty of attention in the months to come. In our opinion, the recent acceleration in all the measurements of consumer prices (graph 1) constitutes more than just noise in the data. Given the ongoing drought in California and the fact that recent developments in Iraq are likely to maintain upwards pressure on prices of petroleum products, there is no sign of any imminent reversal of inflationary pressures. Other components of inflation, including those linked to housing, also appear to be in the process of starting a more robust trend. In the current circumstances, if the deflator were to return to the 2% target or slightly higher, this would not encourage the Fed to rush into monetary tightening; but it might be inclined to adopt a less dovish tone in its press release, to prevent too much dissent in the ranks of the monetary policy committee. Since the market is positioned for the federal funds rate to be raised much more slowly than was indicated in the median forecast by Fed officials (graph 2), such a scenario could trigger a sharp escalation in bond yields.

Graph 1 – Growth in U.S. consumer price indexes is accelerating



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

Graph 2 – There is a significant divergence between what the Fed* is saying and what the futures market is anticipating



* Federal Reserve; ** As per June 25.
Sources: Bloomberg, Federal Reserve and Desjardins, Economic Studies

The situation is also becoming more complex for the Bank of Canada (BoC). Inflation is continuing to accelerate faster than anticipated and now exceeds the 2% target. The BoC will have to raise its inflation forecasts again in July, and it will be difficult for it to keep saying that the downside risks for inflation predominate. However, Governor Poloz will attempt to maintain a tone of concern, in order to avoid too much appreciation by the loonie. This delicate exercise in communication will be made easier by the fact that the BoC's internal debates remain private.

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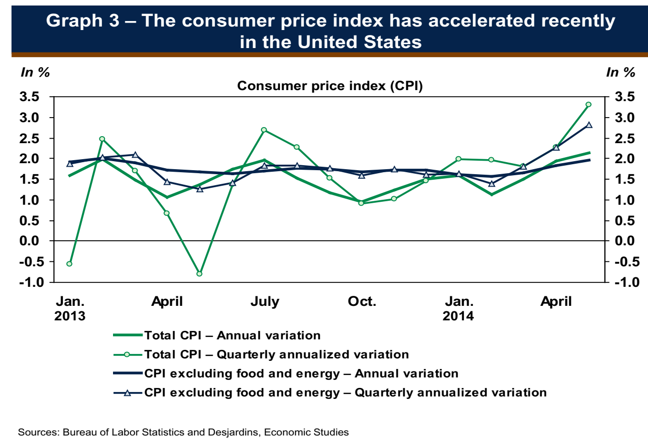
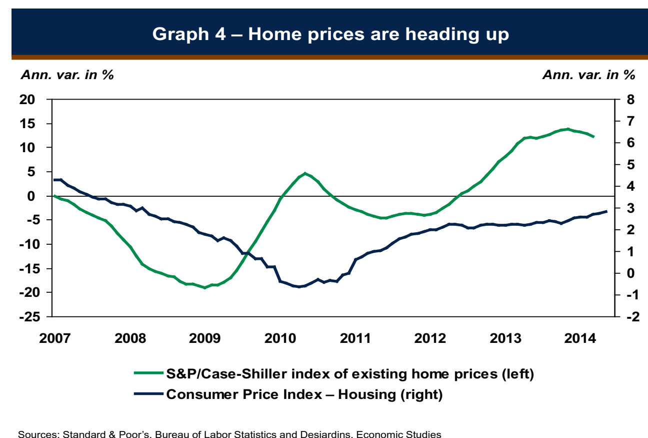
FEDERAL RESERVE

The Federal Reserve gains some time

- At the meeting of June 17 and 18, Federal Reserve (Fed) officials were forced to adjust their growth forecasts. During the previous session, in March, it was already suspected that the particularly severe winter weather would do damage to the economy. But at that point, no one imagined that real GDP would contract at an annualized rate of 1.0% in the first quarter (now revised to -2.9%). As a result, the Fed had no choice but to review its growth forecast for this year downwards. This does not prevent Janet Yellen and her colleagues from believing that the economy rallied in the second quarter. Signs of better growth are, in fact, multiplying: the ISM indexes are up, automobile sales are strong, industrial production has rebounded and job creation is robust. Even the housing market is doing better.
- Echoing this improvement in economic indicators, we also note some acceleration in price indexes (graph 3). The consumer price index (CPI) posted an annual variation of 2.1% in May, the strongest inflation since the fall of 2012. Food and energy prices contributed to this recent acceleration, but core inflation—which excludes those components—is also advancing faster: its annual change came in at 2.0% in May. As part of that, we especially note a net increase in housing costs; the annualized quarterly change of that component has reached its highest level since March 2007. Given that home prices have risen by 25% since the low point of winter 2012, it is normal that the price of shelter should also start to accelerate (graph 4). Some pressures on prices will probably wane, but there is reason to think that the Fed is winning its battle against disinflation. It remains for salaries to follow suit. Their recent trend has been extremely slow, but there are some encouraging signs on that front (graph 5).
- Faster inflation reduces the Fed's latitude for action to some degree, and some members of the monetary policy committee will want to tell the markets that the Fed is keeping a watchful eye on price trends. The job market situation is more ambiguous, given the effects of population factors on the jobless rate and other ratios. This explains in part why Janet Yellen is attempting to buy time. This attitude is likely to continue at future meetings, in order to avoid sudden spikes in bond yields.

Forecasts: The Fed will probably keep reducing its asset purchases at the same pace, i.e. by US$10B at each meeting until the program draws to a close this fall. As for key interest rates, we do not anticipate any hike before September 2015.





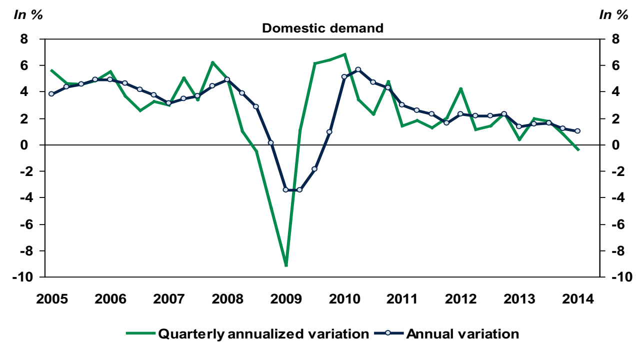
BANK OF CANADA

Inflation is stronger, but domestic demand is weak

- Canada's real GDP grew at an annualized rate of just 1.2% in the first quarter of 2014, a reading that fell far short of expectations. For the first time since the 2008–2009 recession, domestic demand pulled back during the quarter, declining by 0.3% (graph 6).
- There are many challenges on the domestic side. The battle against budget deficits is curbing growth in government spending. Greater caution on the part of households with regard to debt is hindering consumer spending on durable goods. Despite the expected rally in the second quarter, the trend in the real estate market is pointing more towards stabilization, if not a slight pullback. Finally, non-residential investment should accelerate, but we will no doubt have to wait several months longer before businesses gain enough confidence to increase their capital spending to a significant degree.
- Despite this slackness in the Canadian economy, price growth has sharpened in recent months. The total consumer price index (CPI) has seen annualized growth of 6.7% since January, to the point where its annual change reached 2.3% last May. Moreover, there is reason to believe that upwards pressures will persist in the months ahead. Gasoline prices will no doubt suffer the effects of intensifying uncertainty around the globe, especially in Iraq. Already, weekly surveys of prices at the pump show that gasoline prices have risen by more than 1.5% in June (graph 7). Under these conditions, we must expect total inflation to remain slightly above 2% in the months to come (graph 8). The annual change in the core index will continue its upwards trend, but at a more moderate pace. Still, a return to 2% is likely by the end of 2014.
- The recent inflation growth raises questions about monetary policy developments in this country. If the current trend continues, Bank of Canada (BoC) officials will not be able to ignore the faster-than-expected growth in prices, even if the core index heads up more slowly. That said, the upwards inflation trend is likely to run out of steam in the near term, because domestic demand is not very strong and the Canadian dollar has appreciated slightly.

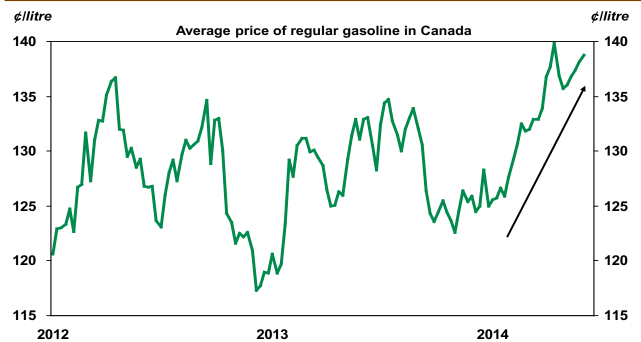
Forecasts: Even though inflation has accelerated significantly in recent months, the risk of it skyrocketing above the high end of the target range is very small. Thus, BoC officials will need to keep a close eye on the flagging domestic demand in the country. Therefore the key interest rate status quo is likely to continue for many months to come; we could see a first rate hike in the fall of 2015.

Graph 6 – Canadian domestic demand is slowing



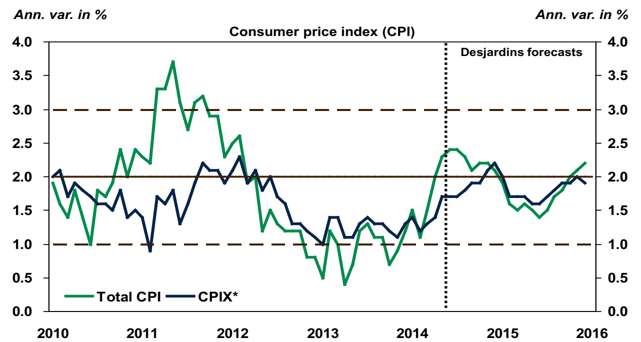
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 7 – Prices at the pump continue their ascent



Sources: Natural Resources Canada and Desjardins, Economic Studies

Graph 8 – The rise in inflation should soon stabilize in Canada



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

OVERSEAS CENTRAL BANK

The European Central Bank goes on the offensive

EUROPEAN CENTRAL BANK (ECB)

- As expected, the ECB announced new monetary easing measures in June. There were many reasons for such action, including increasingly worrisome developments in inflation (graph 9). The two main steps taken were lowering key interest rates, with the deposit rate moving into negative territory, and setting up a targeted lending program to help financial institutions grant more credit to consumers and businesses.
- Boosting credit is still the key to accelerating inflation, but the current measures may not be enough to generate more momentum on that front. Not wishing to be caught short, the ECB is already preparing its next offensive by intensifying its efforts to set up a program of asset-backed security (ABS) purchases. Ultimately, the ECB could also resort to purchasing government securities, although officials have indicated that that tool would only be used to combat deflation. That said, a first step has been taken in that direction, in that the ECB is no longer sterilizing the effect of past government security purchases on the money supply. These are securities that it bought at the height of the sovereign debt crisis, to help some countries that were in trouble.

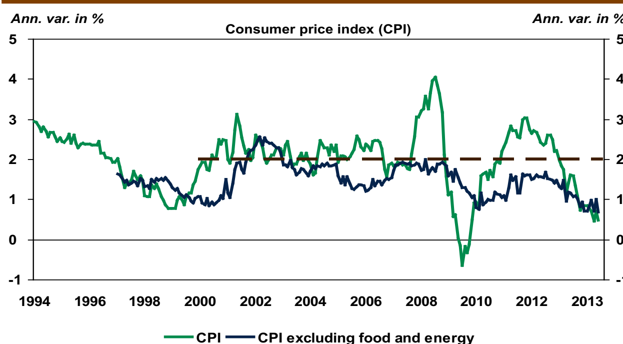
BANK OF ENGLAND (BoE)

- The British economy is still showing robust growth. The winter of 2014 was the third straight quarter of real GDP growth in the neighbourhood of 3%, and the upcoming quarter also looks very promising. Under such circumstances, there is every reason to believe that the BoE will be the first of the major central banks to tighten its monetary policy. Therein, Governor Mark Carney surprised the markets recently by implying that an interest rate hike could take place in 2014. That scenario seems overly optimistic, however, especially since inflation has fallen a bit further below its target lately (graph 10).

BANK OF JAPAN (BoJ)

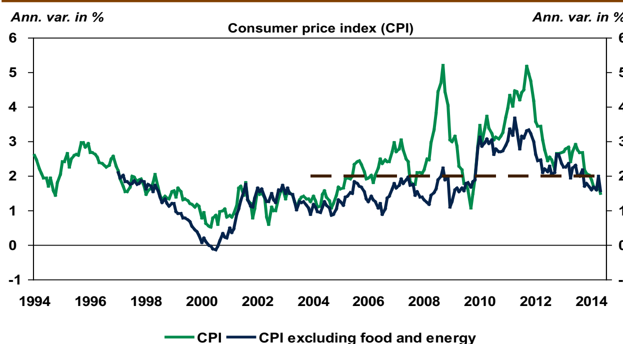
- The BoJ is showing more confidence in the Japanese economy despite the expected pullback in the second quarter due to the hike in the sales tax. Furthermore, inflation is surging strongly (graph 11), and even if the effect of the sales tax is excluded from consideration, the BoJ thinks it can reach its target in the medium term. Therefore, it would be surprising if new easing measures were to be announced in the short term. The government has also just announced a set of reforms to strengthen the economy, and the BoJ might prefer to wait and see the results of those reforms before instituting other measures. We believe that the BoJ will extend its asset purchase program until 2015 at least.

Graph 9 – Inflation rate in the euro zone



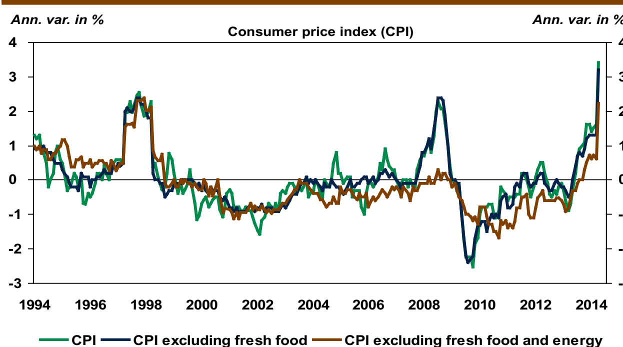
Sources: Datastream and Desjardins, Economic Studies

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

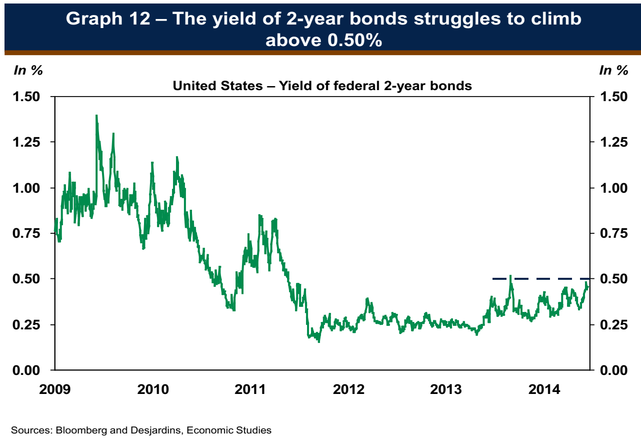
Yields appear to be on the verge of heading up

U.S. FEDERAL BONDS

- The 10-year yield has risen by close to 10 basis points since the end of May, and even the 30-year yield, which suffered the brunt of downwards pressures at the beginning of the year, is showing an uptick of over 5 points in June. Yields between 2- and 5-year maturities are showing bigger increases, of over 10 basis points. Nonetheless, 2-year yields still struggle to break through the 0.50% barrier (graph 12).
- While still modest, the upward movement, is quite logical, based on a variety of factors. Short positioning on U.S. bonds reached unparalleled levels at the end of May, and the better shape of economic data provided support for the upwards movement in yields. In this respect, the market was ripe for a catch-up, considering that the improvement of macro indicators, which was already perceptible in May, had then been accompanied by yields moving further down.
- Central banks were another key factor. Early in June, some members of the Federal Reserve's monetary policy committee expressed concerns about complacency in the markets. The Governor of the Bank of England, Mark Carney, fuelled the debate with a speech giving formal warning of the possibility that interest rates might head up faster than the markets in the United Kingdom were anticipating. This sparked a strong reaction in short-term yields in the United Kingdom, and the effect of the hawkish comments was even felt briefly in the United States (graph 13), as some market participants assumed that similar views might be expressed in the Fed's press release.
- The Fed was unwilling to officially join the game, however, still careful to prevent too drastic a spike in yields. Further, despite signs that the robustness of inflation is fairly pervasive (graph 14), Chair Janet Yellen downplayed them by repeatedly mentioning the "noise" that might exist in the data.

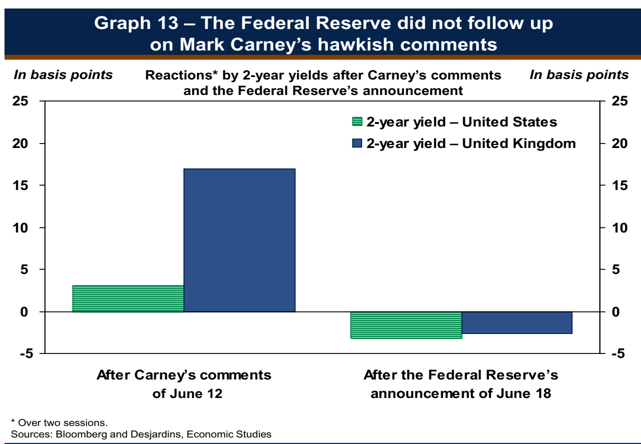
Forecasts: After thoroughly revising our targets last month, we are keeping our scenario unchanged. The upwards movement in yields that was observed in June is in line with our expectations, and given the ongoing progress in inflation and the jobless rate, the fundamentals are firmly in place for this trend to continue. The Fed will keep fighting, though, to ensure that the trend follows an orderly path, even if that implies some lack of volatility. Consequently, the 10-year yield should wind up the year at 3.25%.

Graph 12 – The yield of 2-year bonds struggles to climb above 0.50%



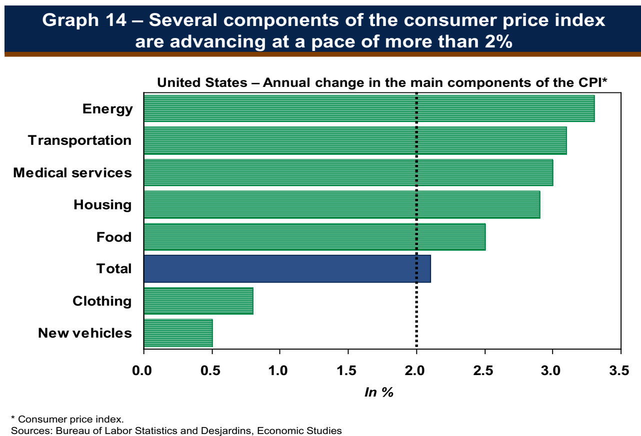
Sources: Bloomberg and Desjardins, Economic Studies

Graph 13 – The Federal Reserve did not follow up on Mark Carney's hawkish comments



* Over two sessions.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 14 – Several components of the consumer price index are advancing at a pace of more than 2%



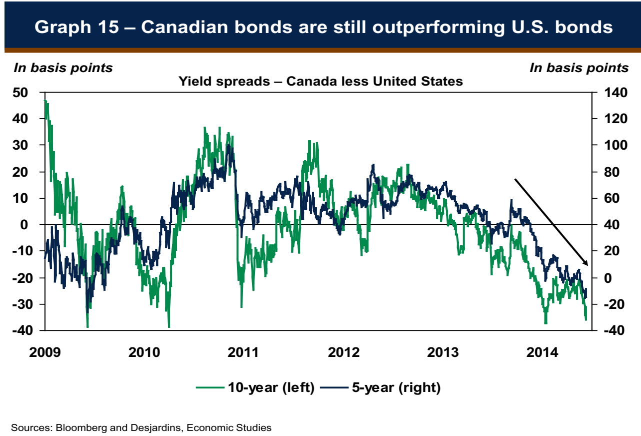
* Consumer price index.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

CANADIAN FEDERAL BONDS

- While the Canadian market is not escaping the upwards trend, we are forced to note that said trend is much more sluggish here than in the United States. The 10-year and 30-year yields have gained a meagre 5 basis points since the start of the month, and barely a few points more in the case of the 5-year yield. Thus Canadian bonds are continuing their very strong performance compared with U.S. bonds (graph 15). We note that the long portion of the curve was the exception to that rule early on, but since the beginning of May, the yield spread has been digging its way deeper into negative territory.
- Canadian macroeconomic trends are following a slightly different path than those in the United States. While it was not hit quite so hard by the weather, Canada did see its domestic demand contract in the first quarter for the first time since the recession, and the slow rate of job growth over the past six months confirms a situation of fragility domestically. Considering these factors, and stressing the risks surrounding global growth, the Bank of Canada (BoC) decided to keep the comment, in its press release, to the effect that downside risks to inflation remained important. However, the latest inflation print reopened the debate about the credibility of that statement. We note some signs of generalization in the normalization of inflation (graph 16), further contributing to make the BoC's language appear outdated.
- Investors appear to share our view that the BoC will be obliged to adjust its stance at its July meeting, and no longer perceive the slightest likelihood that the BoC's next step will be to cut interest rates. The context of core inflation moving towards the target quite a bit faster than the BoC had thought is helping to fuel inflation expectations to some degree. For the time being, the upswing in the breakeven inflation rate is still moderate compared to that observed in the United States (graph 17), and investors are reluctant to go too far in questioning the BoC's intention to combat inflationary pressures should they prove threatening. That could change, though, if the BoC were to surprise the markets with a more dovish-than-expected stance in July.

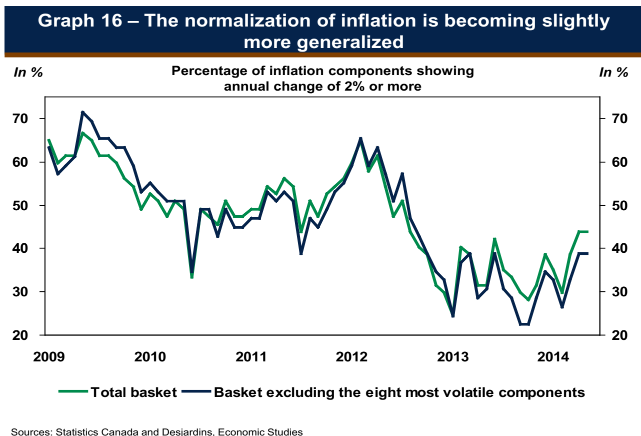
Forecasts: We are leaving our scenario for Canadian bonds as is, and still believe that the yields for terms of five years and up will end the year below the U.S. yields. Our target for the 10-year yield is 2.90%. The curve could flatten in anticipation of the BoC being slightly less dovish in July, but that effect is likely to be short-lived. While it is entirely possible that the BoC might tone down its apprehensions about immediate downside risks for inflation, we expect that it will focus on certain areas of economic vulnerability, and on more restrictive structural aspects, and thus maintain a wait-and-see attitude.

Graph 15 – Canadian bonds are still outperforming U.S. bonds



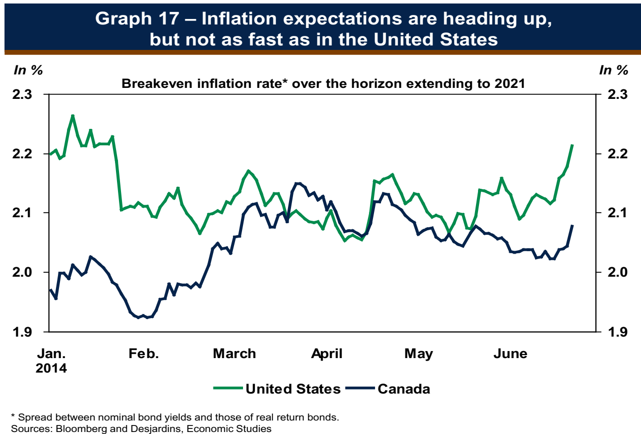
Sources: Bloomberg and Desjardins, Economic Studies

Graph 16 – The normalization of inflation is becoming slightly more generalized



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 17 – Inflation expectations are heading up, but not as fast as in the United States

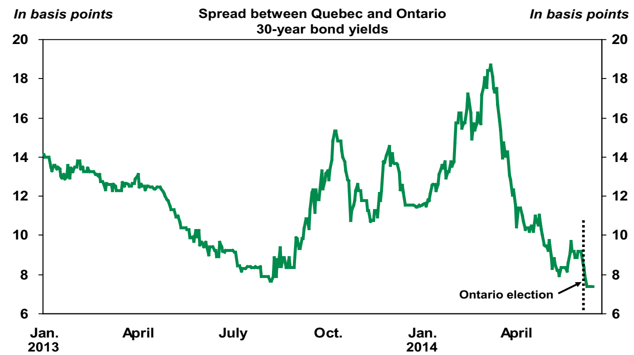


* Spread between nominal bond yields and those of real return bonds.
Sources: Bloomberg and Desjardins, Economic Studies

PROVINCIAL AND CORPORATE BONDS

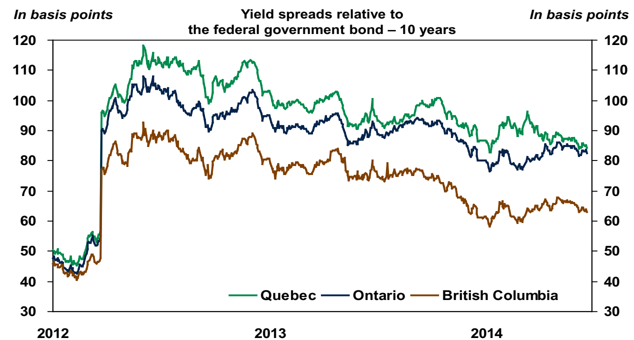
- The period of electoral suspense that marked the spring in Quebec and Ontario is now behind us, and in each case the result has been the appointment by voters of majority Liberal governments. However, the expected normalization in the yield differential between Ontario and Quebec bonds is slow to materialize (graph 18). It must be said that even after the election result, there remain a few hurdles before budgetary uncertainties dissipate. The government of Ontario will once again submit a budget to a vote in the legislature. Everything indicates that this budget will contain the same parameters as the one that had triggered the election in May. Once this step is completed, credit rating agencies will offer their opinion. Ontario's rating is already stamped with a negative outlook with two major agencies and the upward revision to the deficit forecasts relative to the budget tabled in 2013 will probably cause them to frown more. It remains to be seen whether this justifies a downgrade, however, but regardless, the suspense on the credit rating of Ontario is a factor which could continue to put Quebec bonds at an advantage in the short term. Looking beyond, the 30-year yield spread between Quebec and Ontario should nevertheless climb back over 10 basis points as uncertainty factors gradually fade in Ontario.
- The same applies to spreads of bonds of certain western provinces compared to Ontario. British Columbia bonds continued to exhibit remarkable performance, to a point of raising the question as to whether it is entirely justified. The government of British Columbia announced the achievement of a balanced budget this year, and three of the four major agencies ascribe a perfect rating to its debt. That said, the better fiscal lay of the land in western provinces is no novelty. For more than two years now, the spread between British Columbia and Canada bond yields has been trading significantly below that of Quebec and Ontario (graph 19), in part to reflect different budgetary realities. In a scenario that would see Ontario bonds richen during the summer, British Columbia bonds may well be among the hardest hit relatively speaking.
- As for corporate bonds, the backdrop of extremely tight spreads still stands (graph 20), maintained by the search for yield. The asset class appears expensive to a point where the risk of sudden reversal should not be neglected. For example, from a systemic perspective, given the more stringent regulations related to measures of Basel III, major U.S. brokers have significantly reduced their market-making involvement. Corporate-bond mutual funds would find themselves in a vulnerable position in a scenario of mass redemptions from shareholders and spreads could then soar. A number of financial media reported the Federal Reserve to be discussing the possibility of imposing exit fees to reduce the likelihood of massive withdrawals. This illustrates the fact that despite the strengthening of the financial system since the crisis, vulnerabilities remain very present. Investors are thus well advised to keep wary of market complacency.

Graph 18 – The spread between Quebec and Ontario bond yields remains very low



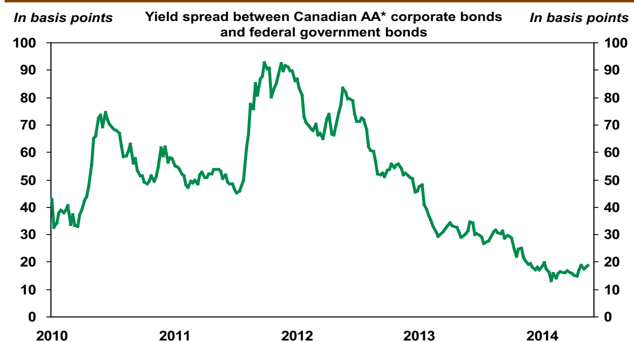
Sources: Desjardins, Capital Markets and Desjardins, Economic Studies

Graph 19 – The spread of British Columbia has long been below those of either Quebec or Ontario



Sources: Desjardins, Capital Markets and Desjardins, Economic Studies

Graph 20 – The additional yield compensation required for corporate bonds remains near its low



* DEX Capital index.
Sources: Datastream and Desjardins, Economic Studies

Table 1
Key interest rates

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
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	0.15	0.15	0.15	0.15	0.15	0.15	0.15
United Kingdom												
Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	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
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
June 2014			
3	Reserve Bank of Australia	s.q.	2.50
4	Bank of Canada	s.q.	1.00
5	European Central Bank	+75 b.p.	0.15
5	Bank of England	s.q.	0.50
6	Bank of Mexico	-50 b.p.	3.00
11	Reserve Bank of New Zealand	+25 b.p.	3.25
12-13	Bank of Japan	---	---
18	Federal Reserve	s.q.	0.00 / 0.25
19	Bank of Norway	s.q.	1.50
19	Swiss National Bank	s.q.	0.00

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

Table 3
Coming soon

Date	Central 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
3	Bank of Canada
3-4	Bank of Japan
4	European Central Bank
4	Bank of England
4	Bank of Sweden
5	Bank of Mexico
10	Reserve Bank of New Zealand
17	Federal Reserve
18	Bank of Norway
18	Swiss National Bank

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	0.05	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	3.45	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	1.65	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												
Federal 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	1.65	1.95	2.15	2.35	2.55	2.70	2.85
10-year	1.76	2.44	2.54	2.78	2.46	2.35	2.65	2.90	2.95	3.05	3.15	3.25
30-year	2.51	2.90	3.07	3.24	2.96	2.85	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	0.70	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	1.20	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	1.90	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	0.90	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	-0.05	0.00	-0.05	-0.05	-0.05	-0.10	-0.15
10-year	-0.09	-0.04	-0.08	-0.23	-0.27	-0.30	-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