The Yield Curve

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The next few months will be key for the bond market

HIGHLIGHTS

- Bond yields recently managed to edge up. This recent trend seems to reflect subsiding risks of deflation in many economies and the fact that some investors are becoming uncomfortable with just how low bond yields are.
- In Canada, bond yields started to rise in mid-April when the Bank of Canada (BoC) surprised everybody by adopting a optimistic tone in its *Monetary Policy Report*.
- The recent surge in oil prices mainly reflects the confirmation that low prices will have a significant impact on U.S. oil production. On the other hand, the situation outside the United States is less conducive to price growth.
- The Federal Reserve will probably start raising key interest rates in September 2015. After that, the pace of rate hikes is likely to be slow and irregular.
- The existence of greater upwards pressure on inflation gives the BoC less leeway for further easing its monetary policy. However, given the very weak growth outlooks that are expected for the months ahead, the BoC will have to bide its time until the spring of 2016 before raising its key interest rates.

Contents

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

Editorial

The U.S. bond market was relatively calm in the weeks that followed the March 18 meeting of the Federal Reserve (Fed). The release of disappointing economic data, in particular the marked slowdown in U.S. job growth, confirmed that a key interest rate hike was unlikely before September 2015, consolidating the bond market's gains. Despite other disappointing data, including even weaker-than-expected GDP growth in the first quarter, U.S. bond yields managed to edge up in the days preceding the Fed's April meeting. This recent trend seems to reflect subsiding risks of deflation in many economies and the fact that some investors are becoming uncomfortable with just how low bond yields are, especially in Europe.

In Canada, bond yields started to rise in mid-April when the Bank of Canada (BoC) surprised everybody by adopting a relatively optimistic tone in its *Monetary Policy Report*. That, combined with the strength of core inflation, has sharply reduced the probability of further key interest rate cuts.

IS THE REBOUND IN OIL PRICES SUSTAINABLE?

One unfavourable development for the bond market is the fact that the price of WTI (West Texas Intermediate) oil has climbed by around US$15 per barrel since mid-March. That, along with the resilience of core inflation in many economies, has raised inflation expectations in the markets (graph 1 on page 2).

The recent surge in oil prices mainly reflects the confirmation that low oil prices and the spectacular plunge in drilling activity will have a significant impact on U.S. oil production. The weekly data show that the upswing in U.S. oil output has given way to stagnation since mid-March. On the other hand, the situation outside the United States is less conducive to price growth, since the member countries of the Organization of the Petroleum Exporting Countries (OPEC)

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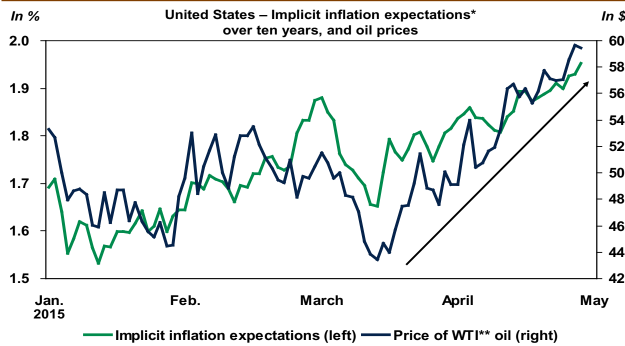
Graph 1 – Rising oil prices are exerting upwards pressure on inflation expectations



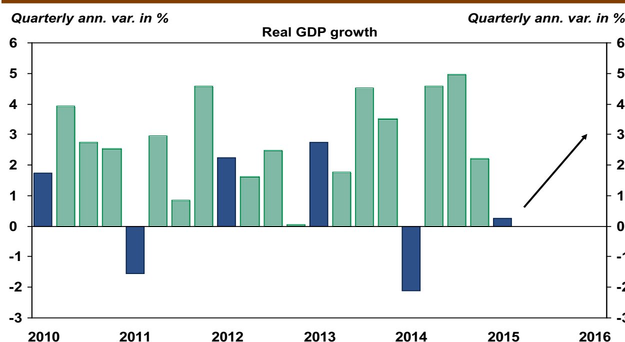
* Based on the spread between nominal bond yields and yields of inflation-indexed bonds; ** West Texas Intermediate.
Sources: Bloomberg and Desjardins, Economic Studies

have sharply increased their production in recent months. This suggests that the global oil market could remain in a surplus position even if U.S. production stagnates. Under these conditions, and given that the preliminary agreement of April 2 between Iran and the major powers increases the likelihood of an influx of Iranian oil into the market in the second half of 2015, the recent upturn in oil prices appears rather premature.

A CRUCIAL SECOND QUARTER IN NORTH AMERICA

As expected, the Fed did not send any clear signal at its April meeting. The press release does note the recent slowdown in the U.S. economy and in job creation, but the Fed is still counting on moderate economic growth that will enable the job market and inflation to move towards its objectives. Thus it still appears to be heading towards a key interest rate hike. Given how disappointing the first quarter was, a hike in June or August appears unlikely, but the monetary tightening could well start in September if the winter rough patch that the U.S. economy went through is quickly followed by a rebound, as happened last year (graph 2). In our opinion, the healthy confidence and household income readings make such a scenario highly probable. Were the economic disappointments in the United States to persist,

Graph 2 – Just as in 2010, 2011 and 2014, the U.S. economy could rally after getting off to a bad start



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

the potential for key rate increases in 2015 could quickly evaporate, however, and this would promote another significant decline in bond yields.

The Canadian economy finds itself in a similar situation, since all signs point to very weak growth in the first quarter. This partly reflects the weakness of U.S. demand, as well as the adverse consequence of low oil prices, especially on business investment. Nevertheless, the BoC has recently adopted an optimistic tone, saying that the Canadian economy will rebound quickly once the positive effects of stronger U.S. demand and a low dollar gain the upper hand over the problems generated by crude prices. In general, the BoC's scenario is similar to ours, but we must be mindful of the fact that many downside risks still exist in Canada. In particular, the negative effects of low oil prices could last longer than expected, especially if the prices start falling again. Any continuation of the soft patch in the United States would also have a direct impact on Canadian growth. As in the United States, the situation is likely to become much clearer in Canada towards the end of the summer.

WE ARE MAINTAINING OUR YEAR-END TARGETS

The latest developments are in line with our scenarios, which call for monetary tightening starting next September in the United States and in the spring of 2016 in Canada. However, the existence of numerous downside risks should limit upwards movement in bond yields in the months to come and generate high volatility in the markets, as investors will react strongly to economic statistics. A clearer upwards trend in bond yields could emerge towards the end of the summer, once the U.S. economy has gotten back on track.

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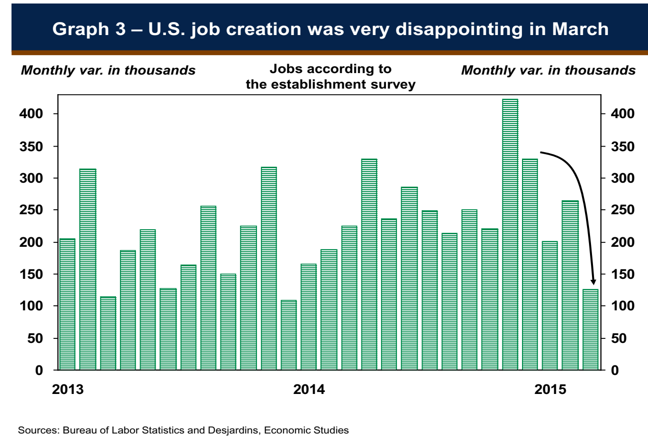
FEDERAL RESERVE

Economic conditions dictate some degree of caution

- Everything looked promising for the U.S. economy last fall: real GDP growth had been strong in the spring and summer, job creation was very robust, the ISM indexes were standing at levels high enough to suggest healthy investment growth, and gasoline prices were in free-fall, boosting household real income and confidence. In these enviable circumstances, the Federal Reserve (Fed) allowed itself to put an end to its quantitative purchases program, and there was talk of an initial interest rate hike in the middle of 2015.
- Things have certainly changed. Economic conditions are now in the doldrums. For the time being, the Fed is still quite confident. In March, it removed the word "patient" from its press release, and from now, monetary policy will depend on the Fed members' reading of current economic conditions and outlooks. However, the report given by the Fed officials in the press release issued in conjunction with their meeting of April 28–29 is rather gloomy. It points out that the pace of job gains has moderated, household spending growth has declined and business investment has softened. This is consistent with the surprising slump in hiring in March; only 126,000 jobs were gained compared with an average of 281,000 during the preceding six months (graph 3). The weak annualized real GDP growth in the first quarter, just 0.2%, is also evidence that the U.S. economy is going through a rough patch. The Fed did mention that the problems are doubtless temporary. It is true that the weather has improved and the labour dispute at West Coast ports is now over. However, the greenback is still relatively strong, constraining both the contribution of foreign trade to the economy, and inflationary pressures (graph 4). Moreover, it is by no means certain that the decline in investment due to the oil sector is behind us (graph 5).
- In these circumstances, it would be surprising to see the Fed begin raising its key interest rates at its June meeting. We are forecasting that some indicators will give better showings before then, but we will not have a complete overview until the second-quarter real GDP is released at the end of July. Before the Fed starts normalizing interest rates, it is reasonable to assume that it will want to make sure that growth has really turned the corner and that employment is gathering steam.

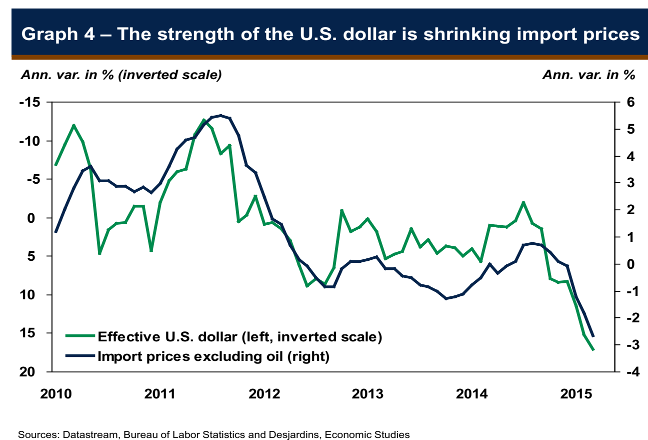
Forecasts: The Fed will probably start raising key interest rates in September 2015. After that, the pace of rate hikes is likely to be slow and irregular. The top of the range for the federal fund target rate should be 0.75% by the end of this year, and 1.50% by the end of 2016.

Graph 3 – U.S. job creation was very disappointing in March



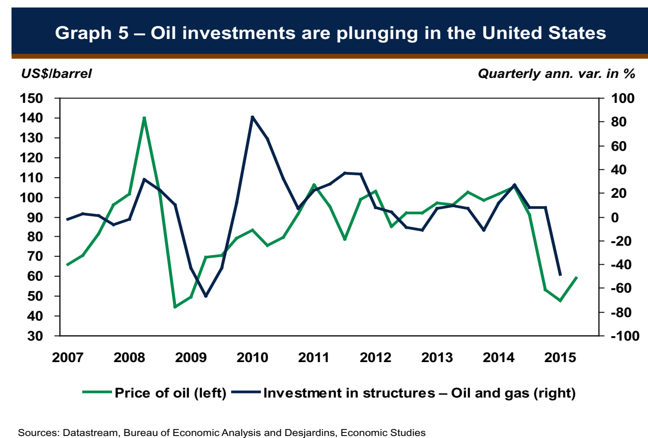
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Graph 4 – The strength of the U.S. dollar is shrinking import prices



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

Graph 5 – Oil investments are plunging in the United States



Sources: Datastream, Bureau of Economic Analysis and Desjardins, Economic Studies

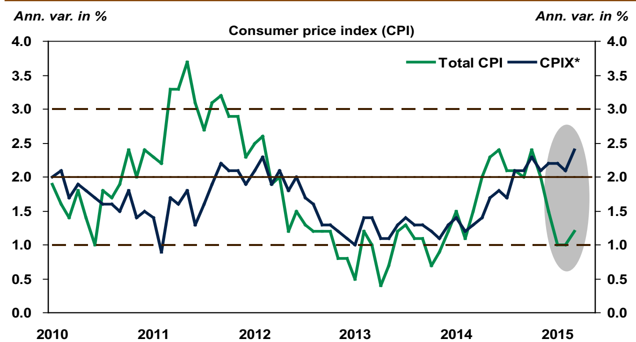
BANK OF CANADA

Inflation is becoming more worrisome

- Inflation is proving fairly resilient in Canada, and the annual change in the all-items consumer price index (CPI) has not declined as much as expected in recent months. This phenomenon is even more pronounced in the core inflation index (CPIX). For example, the monthly change in the seasonally adjusted version of the CPIX (which gives a good indication of trends in inflationary pressures) was up by 0.4% in March. This is much faster growth than the average of the past six months (0.15%). The annual change of the CPIX reached 2.4% in March, its highest level since December 2008 (graph 6). This is evidence of somewhat stronger upwards pressure on Canadian inflation, in particular due to the effects of the depreciating Canadian dollar on the prices of certain imported goods and services.
- On the other hand, economic growth has slowed sharply in Canada in recent months. The sluggish U.S. real GDP in the first quarter of 2015, combined with harsh weather and the negative impact of plunging oil prices on non-residential investment in Canada, strongly affected growth in this country.
- Consequently, real GDP by industry remained flat in February after a 0.2% drop in January. Even if real GDP growth by industry managed to move back into positive territory during the month of March, all the signs are pointing to overall first-quarter growth coming in between 0.0% and 0.5% (graph 7). It remains to be seen whether the hypothesis of accelerating growth in the months to come will materialize. This will largely depend on the anticipated rebound in the U.S. economy and on gradual improvement in the energy sector.
- The Bank of Canada (BoC) recently revised its estimate of the growth potential of Canada's economy. According to the BoC, the production surplus stood between 1.0% and 0.0% in the fourth quarter of 2014. Given the weak real GDP growth that is expected in the first quarter of 2015, the excess production capacity will probably increase significantly during the period. This will somewhat delay the return to full potential (graph 8).

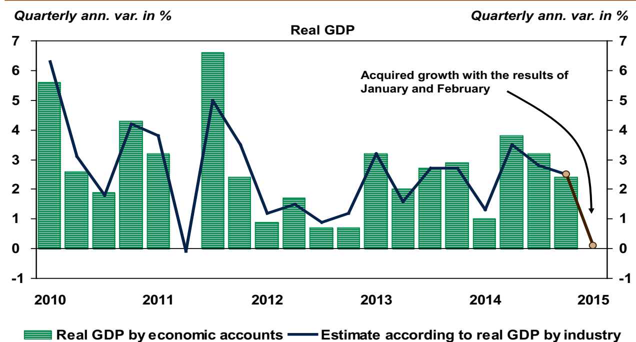
Forecasts: The existence of greater upwards pressure on inflation gives the BoC less leeway for further easing its monetary policy. However, given the very weak growth outlooks that are expected for the months ahead, the BoC will have to bide its time until the spring of 2016 before raising its key interest rates.

Graph 6 – Some upwards pressure is making itself felt on inflation



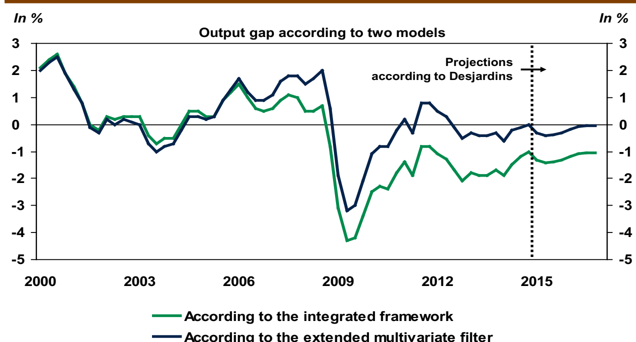
* Bank of Canada's core index.
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 7 – Heading towards practically zero growth in the first quarter of 2015



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 8 – The Canadian economy will continue to exhibit excess production capacity



Sources: Bank of Canada and Desjardins, Economic Studies

OVERSEAS CENTRAL BANK

Improving data in Europe are unlikely to call the European Central Bank's interventions into question

EUROPEAN CENTRAL BANK (ECB)

- Just a few encouraging economic data were enough to raise doubts about the ECB's ability to continue its asset purchase program until September 2016, since it appears that inflation could climb up again faster than anticipated. Indeed, the ECB is reserving the right to review the duration of its program in the event that inflation gets back on target sooner. However, it will take several good quarters of economic growth to really change things. When questioned about this, Mario Draghi said that it was very premature to speculate about the end of the asset purchase program.
- Another factor could throw a spanner in the works, however: the fact that the ECB is refusing to buy assets whose return is below the interest rate offered on deposits at the central bank, i.e. -0.20%. At this point, only the short-term bonds of a few countries are showing a return below the interest rate on deposits (graph 9), but the situation could nonetheless get more complex for the ECB. Mario Draghi indicated that steps could be taken if necessary, but was not more specific. He did at least state that there was no question of another cut in the deposit rate.

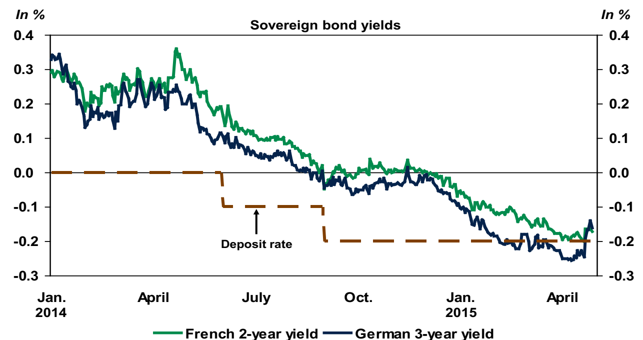
BANK OF ENGLAND (BoE)

- The minutes of the latest monetary policy meeting show that the BoE officials are not too worried about the recent dip in inflation (graph 10). They think that it should get back to the 2% target in the medium term. All the officials still believe in an interest rate rise in the next few years, but there is less certainty about when that movement will start. More mixed economic statistics and the uncertainty surrounding the outcome of general elections are not pointing towards any imminent rate hike.

BANK OF JAPAN (BoJ)

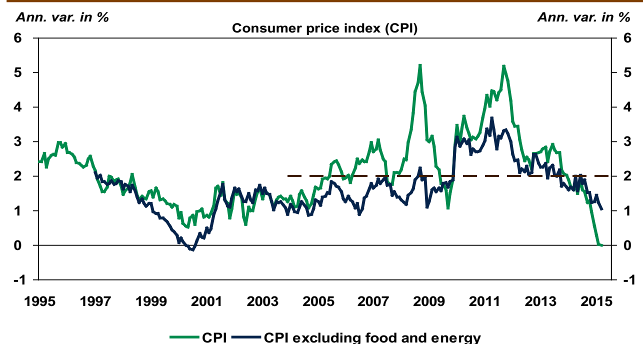
- The BoJ did not announce any new support measures in April despite downwards revisions to its forecasts for economic growth and inflation. At a press conference, Governor Haruhiko Kuroda admitted that the original 2-year timetable for reaching the inflation target will not be met, but he added that price trends are improving sustainably and that this should continue. Thus the BoJ is opting to bide its time, given that the support measures in place are already considerable. But the pressure on the BoJ could soon intensify because inflation will fall back close to 0% once it stops being artificially boosted by the effects of the sales tax hike of April 2014 (graph 11).

Graph 9 – Some bond yields have fallen below the interest rate on deposits at the European Central Bank



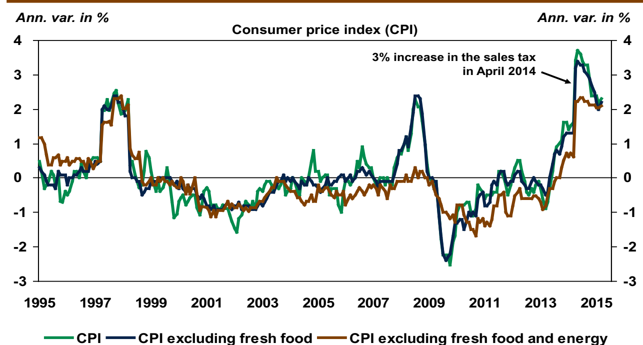
Sources: Datastream and Desjardins, Economic Studies

Graph 10 – Inflation in the United Kingdom reached 0% in March



Sources: Datastream and Desjardins, Economic Studies

Graph 11 – Japanese inflation is still artificially inflated by the sales tax hike of April 2014



Sources: Datastream and Desjardins, Economic Studies

BOND MARKET

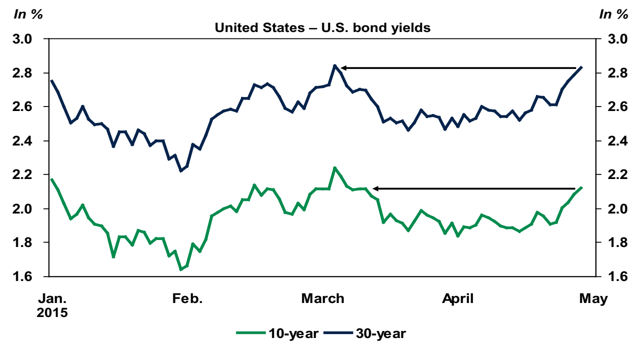
Stephen Poloz stifles rate cut expectations... for how long?

U.S. FEDERAL BONDS

- In April, the data continued to disappoint: there was hardly any growth in the first quarter, and job creation posted a significant pullback. Treasury yields had stayed fairly stable until the last week of the month; the 10-year yield rarely ventured outside the 1.85% to 1.95% range in that period. However, starting on April 27, an impressive steepening movement took hold of global bond markets, propelling the U.S. 10-year yield to nearly 2.20%, which is barely 5 points below the peak of the year (graph 12). As for the 30-year yield, it exceeded its peak of March 6, standing at around 2.90% in early May.
- It cannot be said that macroeconomic conditions have been anything to cheer about lately in the United States. The Federal Reserve (Fed) did adopt a cautiously optimistic tone in its statement of April 29, stressing the temporary factors that held growth in check at the beginning of the year. Upcoming statistics will nonetheless need to strengthen convictions of a quick rebound. Meanwhile, oil prices, which had been sitting soberly within a range of US$45 to US$55 per barrel until mid-April, have jumped to US$60 (graph 13), and the dollar's wild ride seems to have come to an end; its weighted index has retreated to where its early-March level.
- These two factors joined forces with a core consumer price index that came just 0.2% shy of the Fed's target, to send inflation expectations up. Bolstering this trend, signs of reviving inflation were observed in a number of developed countries; however, we question the sustainability of some of these factors. In particular, the oil price revival seems mainly to be influenced by geopolitical factors, but not quite yet by a material reduction in production (graph 14). Inflation expectations could therefore erode further.

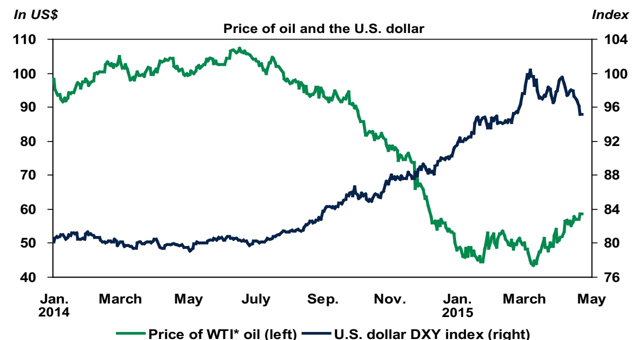
Forecasts: Broad macro trends have not strayed fundamentally from our expectations, and our central assumptions remain unchanged. Thus we predict monetary tightening to start next September, which should drive the 10-year yield to 2.45% by the end of the year. This is predicated on the assumption of more brief bouts of yields trending lower, especially since the resurgence of oil prices in a market that is still characterized by an abundant supply is likely to be short-lived, restraining inflation expectations.

Graph 12 – Yields are approaching their heights of early March



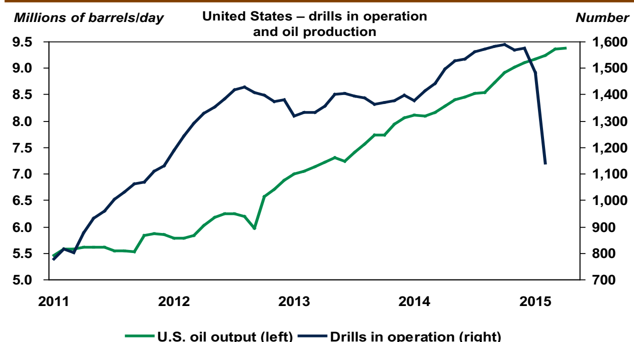
Sources: Bloomberg and Desjardins, Economic Studies

Graph 13 – Rising oil prices and the dollar's decline are positive factors for U.S. inflation



* West Texas Intermediate.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 14 – Drilling has plummeted but adjustments to oil production are happening slowly



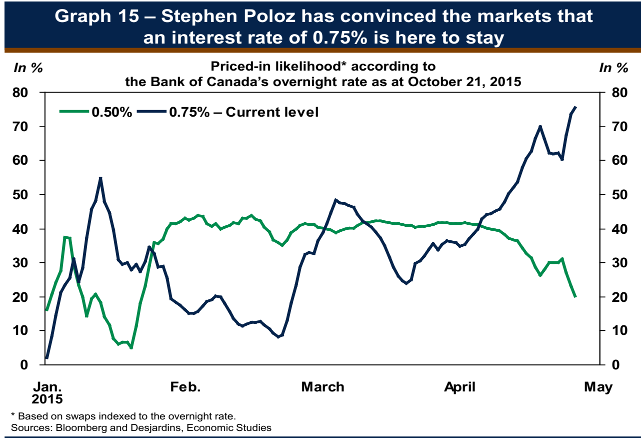
Sources: Baker Hughes, Energy Information Administration and Desjardins, Economic Studies

CANADIAN FEDERAL BONDS

- Still scarred by January's impromptu interest rate cut, the Canadian bond market has for some time been operating on the assumption that another rate cut would take place during the year. However, by reiterating his satisfaction with the current degree of monetary stimulus, Governor Stephen Poloz has managed to eradicate such expectations almost completely (graph 15). In its monetary policy report of mid-April, the Bank of Canada (BoC) argued that the Canadian economy had passed through the eye of the storm as far as the oil price shock was concerned, and that much more dynamic growth should take hold starting this summer.
- The upwards trend in yields that was observed in the developed countries in April was somewhat more pronounced in Canada. Spreads against U.S. yields widened for nearly all maturities. Reflecting the evolution of monetary policy expectations, the spread at the 2-year maturity moved back into positive territory for the first time since January 21.
- Surprisingly, inflation expectations have not risen much in Canada, compared with other developed countries since the beginning of March (graph 16). Yet higher prices of imported goods, stemming from the depreciation of the loonie, have helped push core inflation to a level not seen since 2008. Markets appear to be expecting a relatively vigilant BoC against any potential inflationary threat. However, the BoC continues to discriminate between inflation caused by temporary factors, and that arising from pressure on excess capacity, thereby justifying its tolerance towards an escalation of underlying inflation. As things stand, there seems to be no imminent prospect of the BoC adopting a firmer stance.
- It should be mentioned that the BoC is operating with emboldened expectations here on out. According to its forecasts, the year 2015 should be one of the best recorded in the past 15 years, as far as net exports are concerned (graph 17). It is reasonable to assume that should some of the fairly optimistic assumptions driving its scenario fail to materialize, the BoC would want to have sufficient flexibility to be able to consider further monetary stimulus, presumably in less shocking fashion than in January.

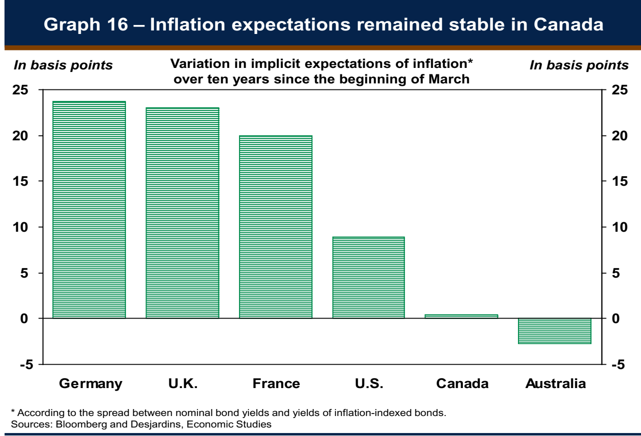
Forecasts: We have raised our short-term yield targets to reflect the slightly larger-than-expected adjustments in the Canadian curve in light of the BoC's reaffirmation of the status quo. Our basic scenario still assumes that policy rates will remain at their current levels for around one year. But for the markets, this is no time for complacency. Even though the BoC is declaring that it is satisfied with the current level of interest rates, risks are still of importance. Ultimately, the evolution of a multitude of variables (oil prices, inflation, domestic demand and exports) will shape the BoC's stance in months to come.

Graph 15 – Stephen Poloz has convinced the markets that an interest rate of 0.75% is here to stay



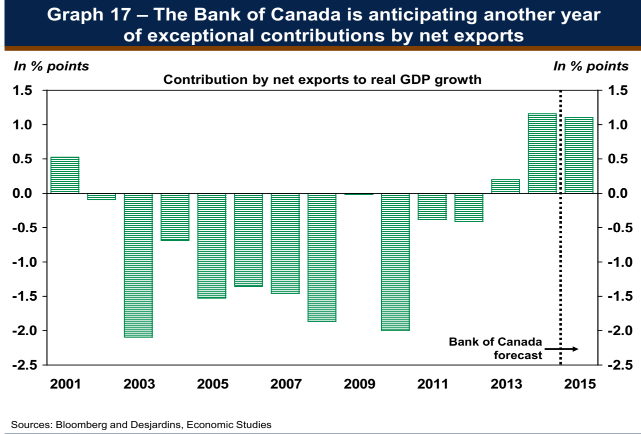
* Based on swaps indexed to the overnight rate.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 16 – Inflation expectations remained stable in Canada



* According to the spread between nominal bond yields and yields of inflation-indexed bonds.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 17 – The Bank of Canada is anticipating another year of exceptional contributions by net exports

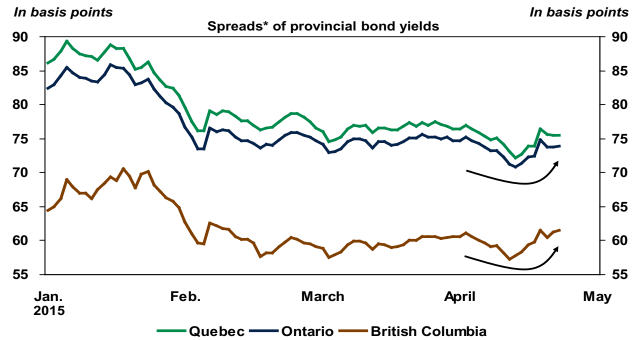


Sources: Bloomberg and Desjardins, Economic Studies

PROVINCIAL AND CORPORATE BONDS

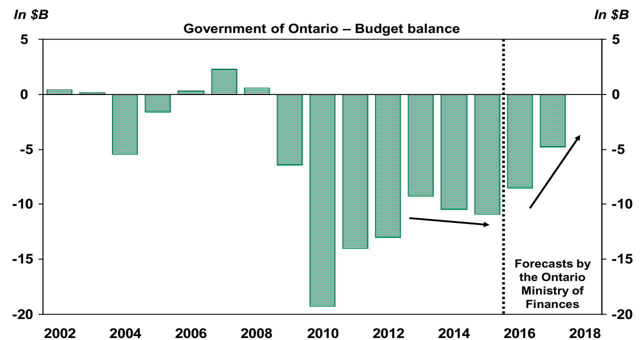
- Spreads between provincial and federal government bond yields kept narrowing at the beginning of April, but in the second half of the month they returned to where they stood at the end of March (graph 18). The turning point was April 15, date of the BoC's latest decision. Underperforming provincial bonds in a context of climbing sovereign yields is not a rare phenomenon, and given the very low levels that the provinces' borrowing costs had reached, further widening was foreseeable.
- At the fundamental level, the budget season is now drawing to a close; Ontario, Manitoba, Newfoundland and Nova Scotia all tabled their budgets in April. Manitoba and Newfoundland both delayed their balanced budget objectives. Newfoundland, where revenues are being strongly affected by lower oil prices, does not foresee returning to a balanced budget before 2020. The case of Manitoba is more surprising; there a balanced budget is planned for the 2018–2019 fiscal year, a delay of two fiscal years. Therefore, instead of declining quickly, Manitoba's borrowings will remain fairly stable in the short term, while Newfoundland finds itself obliged to reactivate its borrowings. On the other hand, sales of assets will, in theory, enable Ontario to issue a bit less in the next few years. Doubts persist, however, regarding its ability to eliminate a deficit of $8.5B in the space of just two years (graph 19), especially with a growing population that will maintain pressure on essential expenditure items like healthcare and education. In conclusion, the fact remains that even though investors can look forward to a more generous bond offer from the provinces, the ongoing hunt for returns is unlikely to cause too much widening of yield spreads.
- Witnessing the yields of some sovereign bonds move into negative territory, and in a context of intense investor demand for returns, corporations stepped up to the plate in droves in the first quarter. Global issuance during the first four months of 2015 was up 55% from the same period in 2014. Corporations were especially active in European debt markets, taking advantage of extremely attractive borrowing costs. More recently, however, investor interest has shown signs of waning, and corporate bond yields have started to climb back up.
- As evidence that investors are becoming sated, a recent survey of fund managers, conducted by Bank of America Merrill Lynch, revealed that over 80% of them felt that the corporate bond market was over-valued. Admittedly, in the past few years managers of bond portfolios have been systematically overweighting the asset class, a phenomenon that Canada is not escaping (graph 20). Additionally, given the close correlation that exists between the stock market indexes and corporate bond indexes, signs of froth in equity markets of Asia and Europe are nothing to reassure. A stock market correction is therefore a risk to watch out for.

Graph 18 – The narrowing of provincial yield spreads in April was very brief



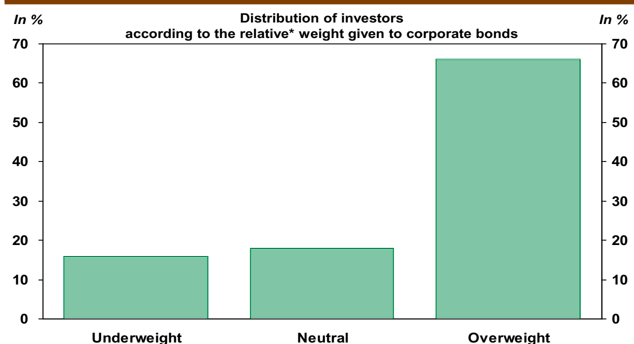
* Yield of 10-year bonds compared with the corresponding federal bond yield.
Sources: Bloomberg and Desjardins, Economic Studies

Graph 19 – Balancing the budget within two years will be a real challenge, especially in light of the performances of recent years



Sources: Ontario Ministry of Finances and Desjardins, Economic Studies

Graph 20 – Canadian investors are also fond of corporate bonds



* Compared with the benchmark index.
Sources: Desjardins, Capital Markets (survey of institutional investors) and Desjardins, Economic Studies

Table 1
Key interest rates

End of period in %	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2f	2015 Q3f	2015 Q4f	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f
United States												
Federal funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.50
Canada												
Overnight funds	1.00	1.00	1.00	1.00	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.25
Euro zone												
Refinancing rate	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
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 2015			
2	Reserve Bank of Australia	s.q.	2.25
4	Bank of Brazil	+50 b.p.	12.75
4	Bank of Canada	s.q.	0.75
5	European Central Bank	s.q.	0.05
5	Bank of England	s.q.	0.50
11	Bank of Korea	-25 b.p.	1.75
11	Reserve Bank of New Zealand	s.q.	3.50
16-17	Bank of Japan	---	---
18	Bank of Sweden	-15 b.p.	-0.25
18	Federal Reserve	s.q.	0.00 / 0.25
19	Bank of Norway	s.q.	1.25
19	Swiss National Bank	s.q.	-0.75
26	Bank of Mexico	s.q.	3.00
April 2015			
7	Reserve Bank of Australia	s.q.	2.25
7-8	Bank of Japan	---	---
9	Bank of England	s.q.	0.50
9	Bank of Korea	s.q.	1.75
15	European Central Bank	s.q.	0.05
15	Bank of Canada	s.q.	0.75
29	Reserve Bank of New Zealand	s.q.	3.50
29	Bank of Sweden	s.q.	-0.25
29	Bank of Brazil	+50 b.p.	13.25
29	Federal Reserve	s.q.	0.00 / 0.25
30	Bank of Japan	---	---
30	Bank of Mexico	s.q.	3.00
May 2015			
5	Reserve Bank of Australia	-25 b.p.	2.00

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

Table 3
Coming soon

Date	Central Bank
May 2015	
7	Bank of Norway
11	Bank of England
15	Bank of Korea
21-22	Bank of Japan
27	Bank of Canada
June 2015	
2	Reserve Bank of Australia
3	European Central Bank
3	Bank of Brazil
4	Bank of England
4	Bank of Mexico
10	Reserve Bank of New Zealand
11	Bank of Korea
17	Federal Reserve
18	Bank of Norway
18	Swiss National Bank
18-19	Bank of Japan
July 2015	
2	Bank of Sweden
7	Reserve Bank of Australia
9	Bank of England
9	Bank of Korea
14-15	Bank of Japan
15	Bank of Canada
16	European Central Bank
22	Reserve Bank of New Zealand
23	Bank of Mexico
29	Bank of Brazil
29	Federal Reserve

Source: Desjardins, Economic Studies

Table 4
United States: fixed income market

End of period in %	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2f	2015 Q3f	2015 Q4f	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f
Key rate												
Federal funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.50
Treasury bills												
3-month	0.05	0.04	0.02	0.04	0.03	0.10	0.50	0.65	0.70	1.00	1.20	1.50
Federal bonds												
2-year	0.39	0.42	0.56	0.63	0.54	0.70	1.00	1.20	1.30	1.55	1.70	1.80
5-year	1.71	1.60	1.77	1.64	1.37	1.60	1.75	1.90	2.00	2.15	2.30	2.40
10-year	2.73	2.52	2.51	2.17	1.93	2.10	2.30	2.45	2.50	2.65	2.80	3.00
30-year	3.56	3.34	3.21	2.75	2.54	2.70	2.85	2.95	3.00	3.10	3.20	3.35
Yield curve												
5-year - 3-month	1.66	1.56	1.75	1.60	1.34	1.50	1.25	1.25	1.30	1.15	1.10	0.90
10-year - 2-year	2.34	2.09	1.95	1.54	1.39	1.40	1.30	1.25	1.20	1.10	1.10	1.20
30-year - 3-month	3.51	3.30	3.19	2.71	2.51	2.60	2.35	2.30	2.30	2.10	2.00	1.85

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

Table 5
Canada: fixed income market

End of period in %	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2f	2015 Q3f	2015 Q4f	2016 Q1f	2016 Q2f	2016 Q3f	2016 Q4f
Key rate												
Federal funds	1.00	1.00	1.00	1.00	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.25
Treasury bills												
3-month	0.89	0.94	0.92	0.92	0.56	0.65	0.65	0.65	0.70	1.00	1.10	1.40
Federal bonds												
2-year	1.07	1.10	1.12	1.01	0.50	0.70	0.85	0.95	1.05	1.30	1.45	1.55
5-year	1.71	1.53	1.63	1.34	0.76	1.10	1.20	1.35	1.50	1.70	1.80	1.90
10-year	2.46	2.24	2.15	1.79	1.36	1.65	1.75	1.85	1.95	2.20	2.30	2.40
30-year	2.96	2.78	2.67	2.34	1.98	2.15	2.30	2.40	2.45	2.60	2.65	2.80
Yield curve												
5-year - 3-month	0.82	0.59	0.71	0.42	0.20	0.45	0.55	0.70	0.80	0.70	0.70	0.50
10-year - 2-year	1.39	1.14	1.03	0.78	0.86	0.95	0.90	0.90	0.90	0.90	0.85	0.85
30-year - 3-month	2.07	1.84	1.75	1.42	1.42	1.50	1.65	1.75	1.75	1.60	1.55	1.40
Spreads (Canada - U.S.)												
3-month	0.84	0.90	0.90	0.88	0.53	0.55	0.15	0.00	0.00	0.00	-0.10	-0.10
2-year	0.68	0.68	0.56	0.38	-0.04	0.00	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25
5-year	-0.00	-0.07	-0.14	-0.30	-0.61	-0.50	-0.55	-0.55	-0.50	-0.45	-0.50	-0.50
10-year	-0.27	-0.28	-0.36	-0.38	-0.57	-0.45	-0.55	-0.60	-0.55	-0.45	-0.50	-0.60
30-year	-0.60	-0.56	-0.54	-0.41	-0.56	-0.55	-0.55	-0.55	-0.55	-0.50	-0.55	-0.55

f: forecasts
Sources: Datastream and Desjardins, Economic Studies