

## THE YIELD CURVE

# Bond Yields Are Expected to Be More Stable in 2020

### HIGHLIGHTS

- ▶ Renewed optimism led to a rise in bond yields at the end of 2019. The U.S. 10-year yield rose above 1.90%, while the Canadian 10-year yield reached 1.70%. Trade tensions eased as an initial agreement between China and the United States helped to stave off further tariff increases on Chinese exports and even halved the tariffs imposed in September. The strong conservative mandate resulting from the United Kingdom election, signaling that the Brexit agreement will be ratified, and encouraging economic data have also helped to fuel a more positive mood on the markets. However, rising tensions in the Middle East have exerted downward pressure on bond yields in recent days.
- ▶ Despite a certain rebound since August, bond yields in the leading advanced nations remain way lower than they were in the fall of 2018, which translated into excellent bond market returns last year. This drop in yields reflects the slowdown in global growth, as well as a major shift in monetary policies—particularly in the United States. However, all signs indicate that the Federal Reserve's (Fed) insurance rate cuts are now over. After three consecutive cuts, Fed leaders voted unanimously for the status quo in December and there are no signs of further easing in the coming quarters, unless there is a notable deterioration in the economic outlook. On the other hand, Jerome Powell has indicated that it would take a significant and persistent increase in inflation to convince the Fed to hike its key rates.
- ▶ While it appeared somewhat more concerned at its October meeting, the Bank of Canada (BoC) struck a more positive tone in December. The growth of the Canadian economy slowed down as expected in the third quarter, but surging domestic demand, helped in part by an unexpected increase in business investment, would appear to confirm the resilience of the Canadian economy. The BoC also noted nascent evidence that the global economy is stabilizing. Against this backdrop, and as inflation and core inflation measures are slightly above the 2% target, everything points to a continued status quo in key rates.
- ▶ As for the European Central Bank (ECB), Christine Lagarde has announced her intention to embark on a review of the ECB's monetary policy strategy, but we do not expect any changes to its monetary policy in the near term. As the pound's recent gains could amplify downward pressure on inflation, the next governor of the Bank of England, Andrew Bailey, may cut key interest rates in the spring if British growth does not pick up.

### INTEREST RATE FORECASTS

- ▶ Our economic scenarios that call for modest but positive growth and inflation slightly below 2% do not signal any change to North American monetary policy in 2020. Monetary policies are already stimulative and both the Fed and the BoC seem reluctant to go further.
- ▶ For the next few quarters, bond yields should hover around the levels observed at the end of 2019 as some international uncertainty should persist. As was observed recently in the United States, a slight steepening of the Canadian yield curve is, however, expected in the next few months.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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**TABLE 1**  
**Key interest rates**

END OF PERIOD IN %	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>United States</b>												
Federal funds	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.50	1.25	1.25	1.25
<b>Canada</b>												
Overnight funds	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.25	1.25
<b>Zone euro</b>												
Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>United Kingdom</b>												
Base rate	0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.25	0.25	0.25	0.25
<b>Japan</b>												
Main key rate	-0.10	-0.10	-0.10	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

**TABLE 2**  
**Fixed income market**

END OF PERIOD IN %	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>UNITED STATES</b>												
<b>Treasury bills</b>												
3-month	2.40	2.12	1.88	1.55	1.55	1.60	1.65	1.60	1.35	1.10	1.10	1.10
<b>Federal bonds</b>												
2-year	2.29	1.76	1.66	1.58	1.65	1.70	1.75	1.65	1.35	1.20	1.20	1.20
5-year	2.23	1.76	1.54	1.68	1.75	1.80	1.80	1.65	1.35	1.25	1.30	1.35
10-year	2.41	2.00	1.67	1.92	1.95	2.00	2.00	1.85	1.50	1.40	1.45	1.50
30-year	2.82	2.53	2.11	2.39	2.35	2.40	2.40	2.25	1.95	1.90	1.95	2.00
<b>Yield curve slopes</b>												
5-year - 3-month	-0.17	-0.36	-0.34	0.13	0.20	0.20	0.15	0.05	0.00	0.15	0.20	0.25
10-year - 2-year	0.13	0.24	0.01	0.34	0.30	0.30	0.25	0.20	0.15	0.20	0.25	0.30
30-year - 3-month	0.42	0.41	0.23	0.84	0.80	0.80	0.75	0.65	0.60	0.80	0.85	0.90
<b>CANADA</b>												
<b>Treasury bills</b>												
3-month	1.67	1.66	1.65	1.66	1.70	1.70	1.70	1.65	1.55	1.30	1.20	1.20
<b>Federal bonds</b>												
2-year	1.55	1.47	1.58	1.69	1.75	1.75	1.75	1.65	1.45	1.30	1.25	1.25
5-year	1.52	1.39	1.40	1.68	1.75	1.75	1.75	1.65	1.35	1.25	1.25	1.30
10-year	1.62	1.46	1.37	1.70	1.75	1.80	1.80	1.65	1.35	1.30	1.35	1.40
30-year	1.90	1.68	1.53	1.76	1.80	1.90	1.90	1.80	1.55	1.50	1.55	1.60
<b>Yield curve slopes</b>												
5-year - 3-month	-0.15	-0.27	-0.25	0.02	0.05	0.05	0.05	0.00	-0.20	-0.05	0.05	0.10
10-year - 2-year	0.07	-0.01	-0.21	0.01	0.00	0.05	0.05	0.00	-0.10	0.00	0.10	0.15
30-year - 3-month	0.23	0.02	-0.12	0.10	0.10	0.20	0.20	0.15	0.00	0.20	0.35	0.40
<b>Yield spreads (Canada—United States)</b>												
3-month	-0.73	-0.46	-0.23	0.11	0.15	0.10	0.05	0.05	0.20	0.20	0.10	0.10
2-year	-0.74	-0.29	-0.08	0.11	0.10	0.05	0.00	0.00	0.10	0.10	0.05	0.05
5-year	-0.71	-0.37	-0.14	0.00	0.00	-0.05	-0.05	0.00	0.00	0.00	-0.05	-0.05
10-year	-0.79	-0.54	-0.30	-0.22	-0.20	-0.20	-0.20	-0.20	-0.15	-0.10	-0.10	-0.10
30-year	-0.92	-0.85	-0.58	-0.63	-0.55	-0.50	-0.50	-0.45	-0.40	-0.40	-0.40	-0.40

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

# Schedule 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
9	Bank of Canada*	s.q.	1.75
22	Bank of Japan	s.q.	-0.10
23	Bank of Korea	s.q.	1.75
24	European Central Bank	s.q.	0.00
24	Bank of Norway	s.q.	0.75
30	Federal Reserve	s.q.	2.50
<b>February</b>			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Brazil	s.q.	6.50
7	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25
12	Reserve Bank of New Zealand	s.q.	1.75
13	Bank of Sweden	s.q.	-0.25
27	Bank of Korea	s.q.	1.75
<b>March</b>			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Canada	s.q.	1.75
7	European Central Bank	s.q.	0.00
14	Bank of Japan	s.q.	-0.10
20	Bank of Brazil	s.q.	6.50
20	Federal Reserve	s.q.	2.50
21	Bank of England	s.q.	0.75
21	Bank of Norway	+25 b.p.	1.00
21	Swiss National Bank	s.q.	-0.75
26	Reserve Bank of New Zealand	s.q.	1.75
28	Bank of Mexico	s.q.	8.25
<b>April</b>			
1	Reserve Bank of Australia	s.q.	1.50
10	European Central Bank	s.q.	0.00
17	Bank of Korea	s.q.	1.75
24	Bank of Canada*	s.q.	1.75
24	Bank of Japan	s.q.	-0.10
25	Bank of Sweden	s.q.	-0.25
<b>May</b>			
1	Federal Reserve	s.q.	2.50
2	Bank of England	s.q.	0.75
7	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of New Zealand	-25 b.p.	1.50
8	Bank of Brazil	s.q.	6.50
16	Bank of Mexico	s.q.	8.25
29	Bank of Canada	s.q.	1.75
30	Bank of Korea	s.q.	1.75
<b>June</b>			
4	Reserve Bank of Australia	-25 b.p.	1.25
6	European Central Bank	s.q.	0.00
13	Swiss National Bank	s.q.	-0.75
19	Bank of Brazil	s.q.	6.50
19	Bank of Japan	s.q.	-0.10
19	Federal Reserve	s.q.	2.50
20	Bank of England	s.q.	0.75
20	Bank of Norway	+25 b.p.	1.25
25	Reserve Bank of New Zealand	s.q.	1.50
27	Bank of Mexico	s.q.	8.25

Date	Central banks	Decision	Rate
<b>July</b>			
2	Reserve Bank of Australia	-25 b.p.	1.00
3	Bank of Sweden	s.q.	-0.25
10	Bank of Canada*	s.q.	1.75
17	Bank of Korea	-25 b.p.	1.50
25	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10
31	Bank of Brazil	-50 b.p.	6.00
31	Federal Reserve	-25 b.p.	2.25
<b>August</b>			
1	Bank of England	s.q.	0.75
6	Reserve Bank of Australia	s.q.	1.00
6	Reserve Bank of New Zealand	-50 b.p.	1.00
15	Bank of Norway	s.q.	1.25
15	Bank of Mexico	-25 b.p.	8.00
29	Bank of Korea	s.q.	1.50
<b>September</b>			
3	Reserve Bank of Australia	s.q.	1.00
4	Bank of Canada	s.q.	1.75
5	Bank of Sweden	s.q.	-0.25
12	European Central Bank	s.q.	0.00
18	Bank of Brazil	-50 b.p.	5.50
18	Bank of Japan	s.q.	-0.10
18	Federal Reserve	-25 b.p.	2.00
19	Bank of England	s.q.	0.75
19	Bank of Norway	+25 b.p.	1.50
19	Swiss National Bank	s.q.	-0.75
24	Reserve Bank of New Zealand	s.q.	1.00
26	Bank of Mexico	-25 b.p.	7.75
<b>October</b>			
1	Reserve Bank of Australia	-25 b.p.	0.75
15	Bank of Korea	-25 b.p.	1.25
24	European Central Bank	s.q.	0.00
24	Bank of Norway	s.q.	1.50
24	Bank of Sweden	s.q.	-0.25
30	Bank of Brazil	-50 b.p.	5.00
30	Bank of Canada*	s.q.	1.75
30	Bank of Japan	s.q.	-0.10
30	Federal Reserve	-25 b.p.	1.75
<b>November</b>			
4	Reserve Bank of Australia	s.q.	0.75
7	Bank of England	s.q.	0.75
12	Reserve Bank of New Zealand	s.q.	1.00
14	Bank of Mexico	-25 b.p.	7.50
28	Bank of Korea	s.q.	1.25
<b>December</b>			
3	Reserve Bank of Australia	s.q.	0.75
4	Bank of Canada	s.q.	1.75
11	Bank of Brazil	-50 b.p.	4.50
11	Federal Reserve	s.q.	1.75
12	European Central Bank	s.q.	0.00
12	Swiss National Bank	s.q.	-0.75
18	Bank of Japan	s.q.	-0.10
19	Bank of England	s.q.	0.75
19	Bank of Norway	s.q.	1.50
19	Bank of Sweden	+25 b.p.	0.00
19	Bank of Mexico	-25 b.p.	7.25

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. \* Monetary Policy Report published.

# Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
17	Bank of Korea		
21	Bank of Japan		
22	Bank of Canada*		
23	European Central Bank		
23	Bank of Norway		
29	Federal Reserve		
30	Bank of England		
<b>February</b>			
4	Reserve Bank of Australia		
5	Bank of Brazil		
11	Reserve Bank of New Zealand		
12	Bank of Sweden		
13	Bank of Mexico		
27	Bank of Korea		
<b>March</b>			
3	Reserve Bank of Australia		
4	Bank of Canada		
12	European Central Bank		
18	Bank of Brazil		
18	Federal Reserve		
19	Bank of Norway		
19	Bank of Japan		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of England		
26	Bank of Mexico		
<b>April</b>			
7	Reserve Bank of Australia		
9	Bank of Korea		
15	Bank of Canada*		
28	Bank of Sweden		
28	Bank of Japan		
29	Federal Reserve		
30	European Central Bank		
<b>May</b>			
5	Reserve Bank of Australia		
6	Bank of Brazil		
7	Bank of England		
7	Bank of Norway		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
<b>June</b>			
2	Reserve Bank of Australia		
3	Bank of Canada		
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

Date	Central banks	Decision	Rate
<b>July</b>			
1	Bank of Sweden		
7	Reserve Bank of Australia		
15	Bank of Canada*		
16	European Central Bank		
16	Bank of Korea		
22	Bank of Japan		
29	Federal Reserve		
<b>August</b>			
4	Reserve Bank of Australia		
5	Bank of Brazil		
6	Bank of England		
11	Reserve Bank of New Zealand		
13	Bank of Mexico		
20	Bank of Norway		
27	Bank of Korea		
<b>September</b>			
1	Reserve Bank of Australia		
9	Bank of Canada		
10	European Central Bank		
16	Bank of Brazil		
16	Federal Reserve		
17	Bank of Japan		
17	Bank of England		
22	Reserve Bank of New Zealand		
22	Bank of Sweden		
24	Bank of Norway		
24	Bank of Mexico		
24	Swiss National Bank		
<b>October</b>			
6	Reserve Bank of Australia		
14	Bank of Korea		
28	Bank of Brazil		
28	Bank of Canada*		
29	European Central Bank		
29	Bank of Japan		
<b>November</b>			
3	Reserve Bank of Australia		
5	Bank of England		
5	Bank of Norway		
5	Federal Reserve		
10	Reserve Bank of New Zealand		
12	Bank of Mexico		
26	Bank of Korea		
26	Bank of Sweden		
<b>December</b>			
1	Reserve Bank of Australia		
7	Bank of Mexico		
9	Bank of Brazil		
9	Bank of Canada		
10	European Central Bank		
16	Federal Reserve		
17	Bank of England		
17	Bank of Norway		
17	Swiss National Bank		
18	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. \* Monetary Policy Report published.