

## THE YIELD CURVE

# Bond Yields Expected to Enter a Period of Consolidation

### HIGHLIGHTS

- ▶ The public health situation remains a primary concern, especially in Europe and the Americas. As a result, severe lockdown measures were introduced recently in several areas to avoid overwhelming the healthcare systems. These measures point to another economic contraction at the beginning of 2021. Despite this, financial markets remain highly optimistic. Increasingly hopeful for a quick vaccination and helped by a new aid plan in the United States, that could be improved now that the Democrats control the Senate, stock markets and commodity prices continued to soar. This led to a significant increase in long-term bond yields, especially in the United States, where the 10-year yield recently surpassed the 1.15% mark.
- ▶ The Federal Reserve (Fed) remains determined to use all its tools to support the economy. At its latest meeting, it committed to continue to increase its Treasury security holdings at least at the current pace until substantial further progress has been made toward its maximum employment and price stability goals. In addition, its leaders are still signalling that key rates should remain unchanged until the end of 2023. The recent increase in long-term yields should not worry the Fed too much, since it essentially reflects a rise in inflation compensation. Still, the Fed could act if increasing yields started to negatively impact the economic outlook or financial markets.
- ▶ As the new, stricter lockdown measures introduced in several provinces will hurt the economy in the short term, the Bank of Canada (BoC) will also want to signal at its meeting on January 20 that it has no plans to tighten monetary policy soon, especially since the Canadian dollar currently has a lot of momentum. The BoC may even look at the possibility of reducing its key rates slightly while keeping them in positive territory. Still, the scenario in which key rates remain at the current level for the foreseeable future remains the most likely. Furthermore, the BoC will not hesitate to continue its massive bond purchasing program as long as the public health situation is not under control.
- ▶ On December 10, the European Central Bank (ECB) announced a number of new measures to continue to support the economy, including extending its security purchasing program until at least March 2022. The last-minute Brexit deal allowed Europe to avoid another negative shock, but the public health situation will force the ECB and the Bank of England to remain very vigilant.

### INTEREST RATE FORECASTS

- ▶ Don't expect to see monetary policy tighten any time soon. Despite the hopes of a quick vaccination, central banks are determined to keep favourable financing conditions for a long time in an effort to return as quickly as possible to a situation similar to the one that existed prior to the pandemic, especially with respect to the labour market.
- ▶ As a result, we still expect North American key rates to remain at current levels until 2023, which will limit movements in short-term interest rates. As the worsening of the public health situation will increase idle capacity in the major economies and central banks will continue to purchase bonds, additional significant increases in long-term bond yields seem unlikely in the short term.

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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 %	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>United States</b>												
Federal funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Canada</b>												
Overnight funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<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	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
<b>Japan</b>												
Main key rate	-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**  
Fixed income market

END OF PERIOD IN %	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>UNITED STATES</b>												
<b>Treasury bills</b>												
3-month	0.11	0.16	0.10	0.09	0.10	0.10	0.15	0.15	0.15	0.15	0.15	0.15
<b>Federal bonds</b>												
2-year	0.25	0.17	0.13	0.13	0.15	0.20	0.30	0.35	0.40	0.45	0.50	0.60
5-year	0.36	0.28	0.27	0.35	0.50	0.55	0.65	0.70	0.75	0.80	0.85	0.95
10-year	0.67	0.65	0.68	0.91	1.15	1.20	1.30	1.40	1.40	1.45	1.50	1.55
30-year	1.32	1.41	1.45	1.64	1.85	1.90	2.00	2.05	2.05	2.10	2.15	2.20
<b>Yield curve slopes</b>												
5-year - 3-month	0.25	0.12	0.17	0.26	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.80
10-year - 2-year	0.41	0.49	0.55	0.79	1.00	1.00	1.00	1.05	1.00	1.00	1.00	0.95
30-year - 3-month	1.21	1.25	1.35	1.55	1.75	1.80	1.85	1.90	1.90	1.95	2.00	2.05
<b>CANADA</b>												
<b>Treasury bills</b>												
3-month	0.21	0.20	0.12	0.06	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20
<b>Federal bonds</b>												
2-year	0.42	0.28	0.25	0.20	0.20	0.25	0.35	0.40	0.45	0.50	0.55	0.60
5-year	0.60	0.36	0.36	0.39	0.50	0.55	0.65	0.75	0.80	0.85	0.90	0.95
10-year	0.71	0.52	0.57	0.67	0.85	0.95	1.05	1.15	1.20	1.25	1.30	1.35
30-year	1.32	0.99	1.11	1.21	1.45	1.50	1.60	1.65	1.70	1.75	1.80	1.85
<b>Yield curve slopes</b>												
5-year - 3-month	0.39	0.16	0.24	0.33	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.75
10-year - 2-year	0.29	0.24	0.32	0.47	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
30-year - 3-month	1.11	0.79	0.99	1.15	1.35	1.40	1.45	1.45	1.50	1.55	1.60	1.65
<b>Yield spreads (Canada—United States)</b>												
3-month	0.10	0.04	0.02	-0.03	0.00	0.00	0.00	0.05	0.05	0.05	0.05	0.05
2-year	0.17	0.11	0.12	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.00
5-year	0.24	0.08	0.09	0.04	0.00	0.00	0.00	0.05	0.05	0.05	0.05	0.00
10-year	0.04	-0.13	-0.11	-0.24	-0.30	-0.25	-0.25	-0.25	-0.20	-0.20	-0.20	-0.20
30-year	0.00	-0.42	-0.34	-0.43	-0.40	-0.40	-0.40	-0.40	-0.35	-0.35	-0.35	-0.35

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

# Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England	s.q.	0.75
<b>February</b>			
3	Reserve Bank of Australia	s.q.	0.75
5	Bank of Brazil	-25 b.p.	4.25
11	Reserve Bank of New Zealand	s.q.	1.00
12	Bank of Sweden	s.q.	0.00
13	Bank of Mexico	-25 b.p.	7.00
26	Bank of Korea	s.q.	1.25
<b>March</b>			
2	Reserve Bank of Australia	-25 b.p.	0.50
3	Federal Reserve	-50 b.p.	1.25
4	Bank of Canada	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
<b>April</b>			
7	Reserve Bank of Australia	s.q.	0.25
8	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
21	Bank of Mexico	-50 b.p.	6.00
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank	s.q.	0.00
<b>May</b>			
5	Reserve Bank of Australia	s.q.	0.25
6	Bank of Brazil	-75 b.p.	3.00
7	Bank of England	s.q.	0.10
7	Bank of Norway	-25 b.p.	0.00
12	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Mexico	-50 b.p.	5.50
27	Bank of Korea	-25 b.p.	0.50
<b>June</b>			
2	Reserve Bank of Australia	s.q.	0.25
3	Bank of Canada	s.q.	0.25
4	European Central Bank	s.q.	0.00
10	Federal Reserve	s.q.	0.25
15	Bank of Japan	s.q.	-0.10
17	Bank of Brazil	-75 b.p.	2.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
18	Swiss National Bank	s.q.	-0.75
23	Reserve Bank of New Zealand	s.q.	0.25
25	Bank of Mexico	-50 b.p.	5.00

Date	Central banks	Decision	Rate
<b>July</b>			
1	Bank of Sweden	s.q.	0.00
7	Reserve Bank of Australia	s.q.	0.25
14	Bank of Japan	s.q.	-0.10
15	Bank of Korea	s.q.	0.50
15	Bank of Canada*	s.q.	0.25
16	European Central Bank	s.q.	0.00
29	Federal Reserve	s.q.	0.25
<b>August</b>			
4	Reserve Bank of Australia	s.q.	0.25
5	Bank of Brazil	-25 b.p.	2.00
6	Bank of England	s.q.	0.10
11	Reserve Bank of New Zealand	s.q.	0.25
13	Bank of Mexico	-50 b.p.	4.50
20	Bank of Norway	s.q.	0.00
26	Bank of Korea	s.q.	0.50
<b>September</b>			
1	Reserve Bank of Australia	s.q.	0.25
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	s.q.	2.00
16	Bank of Japan	s.q.	-0.10
16	Federal Reserve	s.q.	0.25
17	Bank of England	s.q.	0.10
22	Reserve Bank of New Zealand	s.q.	0.25
22	Bank of Sweden	s.q.	0.00
24	Bank of Norway	s.q.	0.00
24	Bank of Mexico	-25 b.p.	4.25
24	Swiss National Bank	s.q.	-0.75
<b>October</b>			
5	Reserve Bank of Australia	s.q.	0.25
13	Bank of Korea	s.q.	0.50
28	Bank of Brazil	s.q.	2.00
28	Bank of Canada*	s.q.	0.25
28	Bank of Japan	s.q.	-0.10
29	European Central Bank	s.q.	0.00
<b>November</b>			
2	Reserve Bank of Australia	-15 b.p.	0.10
5	Bank of England	s.q.	0.10
5	Bank of Norway	s.q.	0.00
5	Federal Reserve	s.q.	0.25
10	Reserve Bank of New Zealand	s.q.	0.25
12	Bank of Mexico	s.q.	4.25
25	Bank of Korea	s.q.	0.50
26	Bank of Sweden	s.q.	0.00
30	Reserve Bank of Australia	s.q.	0.10
<b>December</b>			
9	Bank of Brazil	s.q.	2.00
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Federal Reserve	s.q.	0.25
17	Bank of England	s.q.	0.10
17	Bank of Norway	s.q.	0.00
17	Bank of Japan	s.q.	-0.10
17	Bank of Mexico	s.q.	4.25
17	Swiss National Bank	s.q.	-0.75

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 2021 of Central Bank Meetings

Date	Central banks	Decision	Rate	Date	Central banks	Decision	Rate
<b>January</b>				<b>July</b>			
15	Bank of Korea			1	Bank of Sweden		
20	Bank of Brazil			6	Reserve Bank of Australia		
20	Bank of Canada*			13	Reserve Bank of New Zealand		
21	European Central Bank			14	Bank of Canada*		
21	Bank of Norway			15	Bank of Korea		
21	Bank of Japan			16	Bank of Japan		
27	Federal Reserve			22	European Central Bank		
<b>February</b>				28	Federal Reserve		
1	Reserve Bank of Australia			<b>August</b>			
4	Bank of England			3	Reserve Bank of Australia		
10	Bank of Sweden			4	Bank of Brazil		
11	Bank of Mexico			5	Bank of England		
23	Reserve Bank of New Zealand			12	Bank of Mexico		
25	Bank of Korea			17	Reserve Bank of New Zealand		
<b>March</b>				19	Bank of Norway		
1	Reserve Bank of Australia			26	Bank of Korea		
10	Bank of Canada			<b>September</b>			
11	European Central Bank			7	Reserve Bank of Australia		
17	Bank of Brazil			8	Bank of Canada		
17	Federal Reserve			9	European Central Bank		
18	Bank of England			22	Bank of Brazil		
18	Bank of Norway			22	Bank of Japan		
19	Bank of Japan			22	Federal Reserve		
25	Bank of Mexico			23	Bank of England		
25	Swiss National Bank			23	Bank of Norway		
<b>April</b>				23	Swiss National Bank		
6	Reserve Bank of Australia			30	Bank of Mexico		
13	Reserve Bank of New Zealand			*	Bank of Sweden		
15	Bank of Korea			<b>October</b>			
21	Bank of Canada*			4	Reserve Bank of Australia		
22	European Central Bank			5	Reserve Bank of New Zealand		
27	Bank of Sweden			12	Bank of Korea		
27	Bank of Japan			27	Bank of Brazil		
28	Federal Reserve			27	Bank of Canada*		
<b>May</b>				28	European Central Bank		
4	Reserve Bank of Australia			28	Bank of Japan		
5	Bank of Brazil			<b>November</b>			
6	Bank of England			1	Reserve Bank of Australia		
6	Bank of Norway			3	Federal Reserve		
13	Bank of Mexico			4	Bank of England		
25	Reserve Bank of New Zealand			4	Bank of Norway		
27	Bank of Korea			11	Bank of Mexico		
<b>June</b>				25	Bank of Korea		
1	Reserve Bank of Australia			29	Reserve Bank of New Zealand		
9	Bank of Canada			*	Bank of Sweden		
10	European Central Bank			<b>December</b>			
16	Bank of Brazil			6	Reserve Bank of Australia		
16	Federal Reserve			8	Bank of Brazil		
17	Bank of Norway			8	Bank of Canada		
17	Swiss National Bank			15	Federal Reserve		
18	Bank of Japan			16	European Central Bank		
24	Bank of England			16	Bank of England		
24	Bank of Mexico			16	Bank of Norway		
				16	Bank of Mexico		
				16	Swiss National Bank		
				17	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; \*\* To be determined.