

MARKET CALL

- The resolution of NAFTA, sorry USMCA, clears the way for a move in October. We always anticipated a deal to be struck, so the announcement itself doesn't change our forecasts. Nevertheless, recent positive data points likely mean a subsequent rate hike (following an October move) will be on the way come January 2019, slightly earlier than previously expected. After that, though, the elevated sensitivity of households to rising interest rates will still require a prolonged pause by the central bank.
- The slight shift in timing for Bank of Canada rate hikes should result in a somewhat stronger C\$ profile than we previously envisioned over the coming six months or so. But, as the BoC is set to lag the Fed thereafter, the currency will move back to the low 1.30s by mid-2019.
- Even though inflation appears to have peaked in the US and Canada on a headline basis, some firming in core measures as well as the end of QE in Europe should continue to put modest upward pressure on long-dated bond yields.

INTEREST & FOREIGN EXCHANGE RATES

END OF PERIOD:	2018		2019			2020		
	3-Oct	Dec	Mar	Jun	Sep	Dec	Jun	Dec
CDA Overnight target rate	1.50	1.75	2.00	2.00	2.00	2.00	2.00	2.00
98-Day Treasury Bills	1.61	1.70	1.80	1.95	2.00	2.05	1.70	1.70
2-Year Gov't Bond	2.28	2.30	2.45	2.45	2.50	2.45	2.00	1.75
10-Year Gov't Bond	2.50	2.55	2.75	2.75	2.70	2.75	2.55	2.25
30-Year Gov't Bond	2.48	2.50	2.85	2.80	2.80	3.15	2.95	2.70
U.S. Federal Funds Rate	2.125	2.375	2.375	2.625	2.625	2.875	2.625	2.375
91-Day Treasury Bills	2.22	2.25	2.35	2.55	2.65	2.80	2.60	2.25
2-Year Gov't Note	2.86	2.90	3.00	3.20	3.20	3.30	2.90	2.60
10-Year Gov't Note	3.15	3.10	3.30	3.45	3.45	3.35	3.10	3.00
30-Year Gov't Bond	3.31	3.25	3.40	3.55	3.60	3.60	3.45	3.45
Canada - US T-Bill Spread	-0.61	-0.55	-0.55	-0.60	-0.65	-0.75	-0.90	-0.55
Canada - US 10-Year Bond Spread	-0.66	-0.55	-0.55	-0.70	-0.75	-0.60	-0.55	-0.75
Canada Yield Curve (10-Year — 2-Year)	0.21	0.25	0.30	0.30	0.20	0.30	0.55	0.50
US Yield Curve (10-Year — 2-Year)	0.29	0.20	0.30	0.25	0.25	0.05	0.20	0.40
EXCHANGE RATES								
CADUSD	0.78	0.78	0.78	0.76	0.76	0.75	0.76	0.77
USDCAD	1.28	1.28	1.29	1.31	1.32	1.34	1.32	1.30
USDJPY	114	110	108	106	105	104	102	100
EURUSD	1.15	1.18	1.20	1.23	1.25	1.28	1.30	1.30
GBPUSD	1.30	1.30	1.35	1.39	1.42	1.46	1.50	1.51
AUDUSD	0.71	0.74	0.75	0.76	0.77	0.78	0.79	0.80
USDCHF	0.99	0.97	0.96	0.94	0.94	0.92	0.91	0.89
USDBRL	3.91	4.10	4.25	4.30	4.05	3.90	3.95	4.05
USDMXN	19.0	19.4	19.1	18.9	18.8	19.5	19.4	20.3