

MARKET CALL

- Back in January, we argued that the moderate pace to economic growth since mid-2017 would put the Bank of Canada on the sidelines until July, expecting a firmer pace to growth in Q2. The numbers have cooperated, and a July hike looks very probable. But thereafter, we again see another half-year pause on rates, in line with our view that trade headwinds and tighter mortgage rules obviate the need for a faster pace to monetary tightening.
- In the past month, we shifted one of our 2019 forecast Fed hikes into 2018, in line with an upgraded near term growth outlook and on target inflation. That still leaves us with fed funds topping out just below 3% in 2019, and if fiscal policy tightens in 2020 to address the deficit, that might be a near term peak. Long yields still need to move higher as the term premium adjusts to modest momentum in inflation and supply pressures as global central banks step away from QE.
- Much of the pressure on the loonie in recent months has simply reflected global US dollar strength. Should the greenback shed some of that supremacy, that will keep a lid on how weak the Canadian dollar can get against its US counterpart even if, as we expect, the C\$ weakens on other crosses when the Bank of Canada goes back on hold. A much softer C\$ would be in the offing should the US go ahead with punitive tariffs on Canadian automotive products.

INTEREST & FOREIGN EXCHANGE RATES

END OF PERIOD:	2018	2018	2019				
	3-Jul	Sep	Dec	Mar	Jun	Sep	Dec
CDA Overnight target rate	1.25	1.50	1.50	1.75	1.75	2.00	2.00
98-Day Treasury Bills	1.24	1.45	1.45	1.75	1.70	1.95	2.00
2-Year Gov't Bond	1.91	2.05	2.05	2.10	2.10	2.20	2.25
10-Year Gov't Bond	2.19	2.50	2.55	2.65	2.70	2.65	2.60
30-Year Gov't Bond	2.22	2.45	2.75	2.85	2.85	2.90	3.05
U.S. Federal Funds Rate	1.875	2.125	2.375	2.375	2.625	2.625	2.875
91-Day Treasury Bills	1.98	2.05	2.25	2.35	2.55	2.65	2.80
2-Year Gov't Note	2.55	2.60	2.75	2.75	2.80	2.80	2.85
10-Year Gov't Note	2.86	2.95	3.05	3.20	3.30	3.25	3.15
30-Year Gov't Bond	2.98	3.25	3.45	3.50	3.50	3.55	3.60
Canada - US T-Bill Spread	-0.74	-0.60	-0.80	-0.60	-0.85	-0.70	-0.80
Canada - US 10-Year Bond Spread	-0.67	-0.45	-0.50	-0.55	-0.60	-0.60	-0.55
Canada Yield Curve (10-Year — 2-Year)	0.28	0.45	0.50	0.55	0.60	0.45	0.35
US Yield Curve (10-Year — 2-Year)	0.31	0.35	0.30	0.45	0.50	0.45	0.30
EXCHANGE RATES							
CADUSD	0.76	0.75	0.75	0.76	0.78	0.76	0.77
USDCAD	1.32	1.33	1.34	1.31	1.28	1.31	1.30
USDJPY	111	112	110	108	106	104	104
EURUSD	1.16	1.17	1.19	1.21	1.23	1.25	1.28
GBPUSD	1.32	1.31	1.32	1.36	1.38	1.42	1.47
AUDUSD	0.74	0.76	0.79	0.81	0.82	0.84	0.85
USDCHF	0.99	0.98	0.97	0.96	0.95	0.94	0.94
USDBRL	3.90	3.70	3.55	3.50	3.45	3.50	3.55
USDMXN	19.6	19.4	18.9	18.5	18.1	18.4	18.0