FINANCIAL MARKET FORECASTS

July 12, 2019

Interest rates (%, end of quarter)

	Actual							Forecast					Actual		Forecast	
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019	2020
Canada																
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.00	1.75	1.75	1.50
Three-month	1.10	1.26	1.59	1.64	1.67	1.66	1.65	1.60	1.40	1.40	1.40	1.40	1.06	1.64	1.60	1.40
Two-year	1.78	1.91	2.21	1.86	1.55	1.47	1.60	1.45	1.35	1.40	1.45	1.50	1.69	1.86	1.45	1.50
Five-year	1.97	2.07	2.34	1.89	1.52	1.39	1.60	1.55	1.45	1.50	1.55	1.65	1.87	1.89	1.55	1.65
10-year	2.09	2.17	2.43	1.97	1.62	1.47	1.70	1.70	1.60	1.60	1.70	1.80	2.04	1.97	1.70	1.80
30-year	2.23	2.20	2.42	2.18	1.89	1.69	1.85	1.85	1.90	1.95	2.00	2.00	2.27	2.18	1.85	2.00
Yield curve (10s-2s)	31	26	22	11	7	0	10	25	25	20	25	30	35	11	25	30
United States																
Fed funds*	1.75	2.00	2.25	2.50	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00	1.50	2.50	2.00	2.00
Three-month	1.73	1.93	2.19	2.45	2.40	2.12	1.90	1.90	1.90	1.90	1.90	1.90	1.39	2.45	1.90	1.90
Two-year	2.27	2.52	2.81	2.48	2.27	1.75	1.85	1.90	1.95	2.00	2.10	2.15	1.89	2.48	1.90	2.15
Five-year	2.56	2.73	2.94	2.51	2.23	1.76	1.85	1.95	2.00	2.10	2.20	2.30	2.20	2.51	1.95	2.30
10-year	2.74	2.85	3.05	2.69	2.41	2.00	2.05	2.15	2.25	2.30	2.35	2.45	2.40	2.69	2.15	2.45
30-year	2.97	2.98	3.19	3.02	2.81	2.52	2.55	2.60	2.65	2.70	2.75	2.80	2.74	3.02	2.60	2.80
Yield curve (10s-2s)	47	33	24	21	14	25	20	25	30	30	25	30	51	21	25	30
Yield spreads																
Three-month T-bills	-0.63	-0.67	-0.60	-0.81	-0.73	-0.46	-0.25	-0.30	-0.50	-0.50	-0.50	-0.50	-0.33	-0.81	-0.30	-0.50
Two-year	-0.49	-0.61	-0.60	-0.62	-0.72	-0.28	-0.25	-0.45	-0.60	-0.60	-0.65	-0.65	-0.20	-0.62	-0.45	-0.65
Five-year	-0.59	-0.66	-0.60	-0.62	-0.71	-0.37	-0.25	-0.40	-0.55	-0.60	-0.65	-0.65	-0.33	-0.62	-0.40	-0.65
10-year	-0.65	-0.68	-0.62	-0.72	-0.79	-0.53	-0.35	-0.45	-0.65	-0.70	-0.65	-0.65	-0.36	-0.72	-0.45	-0.65
30-year	-0.74	-0.78	-0.77	-0.84	-0.92	-0.83	-0.70	-0.75	-0.75	-0.75	-0.75	-0.80	-0.47	-0.84	-0.75	-0.80

Note: Interest Rates are end of period rates. * Top of 25 basis point range

Exchange rates (end of quarter)

	Actual							Forecast					Actual		Forecast	
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019	2020
AUD/USD	0.77	0.74	0.72	0.71	0.71	0.70	0.69	0.68	0.67	0.67	0.66	0.66	0.78	0.71	0.68	0.66
USD/CAD	1.29	1.31	1.29	1.36	1.33	1.31	1.28	1.29	1.30	1.31	1.32	1.33	1.26	1.36	1.29	1.33
EUR/USD	1.23	1.17	1.16	1.15	1.12	1.14	1.10	1.12	1.14	1.15	1.15	1.18	1.20	1.15	1.12	1.18
USD/JPY	106.3	110.8	113.7	109.7	110.9	107.9	111.0	113.0	115.0	114.0	113.0	112.0	112.7	109.7	113.0	112.0
USD/CHF	0.95	0.99	0.98	0.98	1.00	0.98	1.02	1.01	1.00	1.00	1.01	0.98	0.97	0.98	1.01	0.98
GBP/USD	1.40	1.32	1.30	1.28	1.30	1.27	1.25	1.27	1.30	1.31	1.31	1.34	1.35	1.28	1.27	1.34

Interest Rate Outlook

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2*	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Canada												
Overnight Target Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-mth T-Bill Rate	1.10	1.26	1.59	1.64	1.67	1.66	1.65	1.65	1.65	1.65	1.65	1.65
2-yr Govt. Bond Yield	1.77	1.91	2.21	1.86	1.55	1.38	1.50	1.55	1.60	1.65	1.70	1.75
5-yr Govt. Bond Yield	1.96	2.06	2.33	1.88	1.52	1.33	1.50	1.55	1.65	1.70	1.75	1.80
10-yr Govt. Bond Yield	2.09	2.17	2.42	1.96	1.62	1.44	1.55	1.65	1.75	1.85	1.90	1.95
30-yr Govt. Bond Yield	2.23	2.20	2.42	2.18	1.89	1.70	1.80	1.90	2.00	2.10	2.15	2.20
10-yr-2-yr Govt Spread	0.32	0.26	0.21	0.10	0.07	0.05	0.05	0.10	0.15	0.20	0.20	0.20
U.S.												
Fed Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00
3-mth T-Bill Rate	1.70	1.89	2.15	2.40	2.35	2.14	1.98	1.85	1.85	1.85	1.85	1.85
2-yr Govt. Bond Yield	2.27	2.52	2.81	2.48	2.27	1.84	1.95	2.00	2.05	2.10	2.15	2.20
5-yr Govt. Bond Yield	2.56	2.73	2.94	2.51	2.23	1.83	2.00	2.10	2.20	2.30	2.35	2.40
10-yr Govt. Bond Yield	2.74	2.85	3.05	2.69	2.41	2.08	2.20	2.30	2.40	2.45	2.50	2.55
30-yr Govt. Bond Yield	2.97	2.98	3.19	3.02	2.81	2.59	2.45	2.55	2.65	2.70	2.75	2.80
10-yr-2-yr Govt Spread	0.47	0.33	0.24	0.21	0.14	0.24	0.25	0.30	0.35	0.35	0.35	0.35
Canada-U.S. Spreads												
Can - U.S. T-Bill Spread	-0.60	-0.63	-0.56	-0.76	-0.68	-0.47	-0.33	-0.20	-0.20	-0.20	-0.20	-0.20
Can - U.S. 10-Year Bond Spread	-0.65	-0.68	-0.63	-0.73	-0.79	-0.65	-0.65	-0.65	-0.65	-0.60	-0.60	-0.60

F: Forecast by TD Bank Group as at June 2019. All forecasts are end-of-period.
Source: Bloomberg, Bank of Canada, Federal Reserve, TD Economics. * Spot rate as at June 14, 2019 with the exception of policy rates.

United States						
Quarters	Fed Fund	3 Mth Bill	2YR	5YR	10YR	30YR
07/03/19	2.50	2.21	1.76	1.74	1.95	2.47
Q3	2.25	1.93	1.72	1.78	2.05	2.58
Q4	2.00	1.81	1.60	1.67	1.97	2.53
Q1/20	2.00	1.81	1.75	1.84	2.13	2.65
Q2	2.00	1.81	1.90	2.02	2.30	2.79
Q3	2.00	1.81	2.00	2.25	2.46	2.93
Q4	2.00	1.81	2.02	2.28	2.49	2.95

Canada						
Quarters	Overnight	3 Mth Bill	2YR	5YR	10YR	30YR
07/03/19	1.75	1.66	1.50	1.42	1.46	1.66
Q3	1.75	1.68	1.43	1.39	1.45	1.66
Q4	1.75	1.71	1.55	1.46	1.56	1.74
Q1/20	1.75	1.71	1.71	1.73	1.84	1.97
Q2	1.75	1.71	1.78	1.81	2.04	2.14
Q3	1.75	1.89	2.07	2.18	2.28	2.31
Q4	2.00	1.96	2.10	2.18	2.30	2.33

Regards
Dave

David Berner | Managing Director, Fixed Income | National Bank Financial Inc. |
130 King St. W, 4th Floor Podium | Toronto, ON | M5X 1J9 | T: 416-869-8630 | david.berner@nbc.ca |

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MARKET CALL

- With the US economy looking like its slowing down, and with downside risks from tariffs rising, Fed members have started talking about the possibility of cutting interest rates. And with core PCE inflation likely to remain below 2% through the end of the year (see pages 6-7), there's scope for them to do so. Assuming no near-term resolution to the US-China trade dispute, we have brought forward and added to our previous forecast for Fed rate cuts. We now expect two, in Q4 2019 and Q1 2020.
- While we're likely to get some better news on the Canadian economy over the remainder of 2019 (see pages 3-5), the BoC is still relying heavily on exports and business investment to drive the economy by 2020. However, continued global trade uncertainties, combined with a temporary appreciation in the C$ as the Fed cuts interest rates, could see the BoC reluctantly join in and reduce rates by 25bp in Q2 2020.
- Financial markets may be correct in assuming that interest rate cuts are coming. However, they may be incorrect in just how many will be needed to stabilize growth and inflation. Long-term interest rates appear to be pricing in a much more dire outlook than the 1½% growth rates we forecast for next year. As such, there's scope for 10-year yields to rise even as central banks cut at the short end.

INTEREST & FOREIGN EXCHANGE RATES

		2019			2020			
END OF PERIOD:		**12-Jun**	**Sep**	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**
CDA	Overnight target rate	1.75	1.75	1.75	1.75	1.50	1.50	1.50
	98-Day Treasury Bills	1.67	1.70	1.70	1.60	1.40	1.45	1.45
	2-Year Gov't Bond	1.46	1.60	1.60	1.50	1.40	1.40	1.45
	10-Year Gov't Bond	1.51	1.75	1.85	1.70	1.65	1.50	1.60
	30-Year Gov't Bond	1.76	1.95	2.00	2.05	1.95	1.90	1.85
U.S.	Federal Funds Rate	2.375	2.375	2.125	1.875	1.875	1.875	1.875
	91-Day Treasury Bills	2.25	2.35	2.13	1.80	1.70	1.80	1.88
	2-Year Gov't Note	1.88	2.05	2.00	1.90	1.70	1.90	2.00
	10-Year Gov't Note	2.13	2.35	2.45	2.20	2.20	2.30	2.40
	30-Year Gov't Bond	2.62	2.75	2.75	2.70	2.65	2.65	2.60
Canada - US T-Bill Spread		-0.59	-0.65	-0.43	-0.20	-0.30	-0.35	-0.43
Canada - US 10-Year Bond Spread		-0.62	-0.60	-0.60	-0.50	-0.55	-0.80	-0.80
Canada Yield Curve (10-Year — 2-Year)		0.05	0.15	0.25	0.20	0.25	0.10	0.15
US Yield Curve (10-Year — 2-Year)		0.25	0.30	0.45	0.30	0.50	0.40	0.40
EXCHANGE RATES	CADUSD	0.75	0.76	0.75	0.75	0.74	0.74	0.72
	USDCAD	1.33	1.31	1.34	1.34	1.35	1.36	1.38
	USDJPY	108	106	105	104	103	101	100
	EURUSD	1.13	1.16	1.18	1.20	1.23	1.23	1.24
	GBPUSD	1.27	1.33	1.37	1.41	1.46	1.46	1.46
	AUDUSD	0.70	0.70	0.71	0.74	0.76	0.78	0.78
	USDCHF	0.99	0.97	0.96	0.94	0.93	0.93	0.94
	USDBRL	3.86	3.65	3.80	3.85	3.95	3.90	3.80
	USDMXN	19.7	20.1	19.9	20.1	20.4	20.6	20.7