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Forecast Summary (averages)

	Actual	Forecasts							2019		
	2017 Sep	2017 Oct	Nov	2017 Q4	2018 Q1	Q2	Q3	Q4	Q1	Q2	Q3
BoC overnight	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.50
10-yr Canadas	2.05	2.10	2.20	2.20	2.30	2.40	2.50	2.65	2.80	3.00	3.05
Fed funds	1.13	1.13	1.13	1.38	1.38	1.63	1.88	2.13	2.38	2.63	2.63
10-yr Treasuries	2.20	2.35	2.35	2.35	2.45	2.50	2.65	2.80	3.00	3.15	3.25
C\$ per US\$	1.229	1.235	1.243	1.243	1.242	1.229	1.217	1.204	1.208	1.221	1.233
US\$/€	1.19	1.19	1.19	1.19	1.17	1.15	1.17	1.19	1.21	1.22	1.23
US\$/£	1.33	1.33	1.33	1.33	1.32	1.30	1.30	1.32	1.33	1.34	1.34
¥/US\$	111	112	113	113	115	116	116	117	117	116	116

Since the last issue of Rates Scenario (on September 11th):

- We have not made any changes to our Fed call through the end of 2018. Having passed on a September rate hike after three consecutive quarterly moves (Dec-2016/Mar-2017/Jun), we look for the Fed to keep to a semi-annual cadence until the second half of next year. The next rate hike should occur in December, followed by another move in June 2018 and a subsequent return to a quarterly pace (so 100 bps in cumulative tightening by the end of next year). Again, this temporary policy downshifting reflects increased Fed caution concerning: (1) running two policy normalization programs (rates and balance sheet) in tandem, particularly at the outset of the latter; and (2) inflation's recent underperformance (a.k.a. Yellen's "mystery"). Her September 25th speech supported the proposition that these two concerns would only slow and not stop future rate hikes ("it would be imprudent to keep monetary policy on hold until inflation is back to 2 percent").
- We have also not made any changes to our Bank of Canada call through the end of 2018. We still look for 100 bps in cumulative rate hikes with individual actions occurring on the MPR dates (Jan/Apr/Jul/Oct). However, the risks around our forecast have changed materially. In the wake of the surprise rate hike on September 6, we had judged the net risk was that the January move could be pulled forward into 2017. We now judge the net risk is that a January resumption of rate hikes could be postponed by a quarter, which would result in only 75 bps of cumulative tightening next year. The catalysts for this are recent weak data (July GDP, August trade) and Governor Poloz's September 26th speech ("there is no predetermined path for interest rates from here... we could still be surprised in either direction [by the data]").
- It now seems that Fed and BoC policies are more in sync than they have been for years, with 100 bps in cumulative tightening by end-2018 and with uncertainty about respective inflation outlooks translating into greater data dependency and the need to be nimble. However, despite being more in sync, we still judge the BoC will tread more carefully on the rate-hike front than the Fed given the Bank's greater skepticism about labour market slack (there's more out there than measured by the jobless rate), along with concerns over higher levels of household debt and the Canadian dollar becoming too strong. Finally, we did make a 25-bp cut to our forecast for

the level of normalized policy rates on both sides of the border, with the BoC now at 2.50% and the Fed at 2.75%. This is consistent with the lower bound of the Bank's estimated range and the FOMC's latest median projection.

- The **BoE's** tune has changed significantly over the past few weeks. Expectations surged for a November rate hike after the Bank's September meeting showed that "*all*" members of the MPC judged that policy "*could need to be tightened by a somewhat greater extent over the forecast period than current market expectations*" and that a "*majority*" felt that "*some withdrawal of monetary stimulus*" would "*likely ... be appropriate over the coming months*". Although the limited amount of data since then has not indicated a big improvement in growth, it did not point to a significant slowing, either. And, it looks like there may be a 2-year Brexit transition period after March 2019, which should give confidence a boost. Hence, the economy may be able to stomach the first rate hike since the referendum. We don't look for much strength in the GBP heading into year-end: ongoing turbulence in the British Parliament and the tough Brexit talks will continue to weigh. Next year, the currency should receive some support as the path toward the transitional arrangement becomes clearer.
- The **ECB** has not had a policy meeting since our last issue but the economic data continue to keep the central bank on track to detail the "*bulk*" of its plans for its asset purchase program at the October 26th meeting. The Minutes of the previous meeting revealed plenty of concern about the euro's strength and that it warranted "*close monitoring*". However, there was still debate on the QE program, between longer duration and a bigger cut to the monthly bond buying, versus a shorter duration and a smaller cut. We believe a full taper schedule with incremental reductions in 2018 or a single reduction with a more open-ended approach, are both possibilities. Stephen Gallo, Head of European FX Strategy, sees a strong likelihood of increases in issuer/issue limits and a strengthening of the forward guidance on rates. In any event, we look for the euro to end the year just below US\$1.20 as the hawkish and dovish elements of the ECB's announcements largely offset one another.
- Japan's economy has been exhibiting some promising signs of late (20-year low jobless rate, a pickup in household spending, rising industrial production) but there are still roadblocks that will prevent the **BoJ** from getting off the sidelines in the foreseeable future. Core inflation, at 0.7%, is still far from the Bank's 2% target (which they don't expect to reach until March 2020). One member actually voted for more stimulus at the last meeting, while the deputy governor sees a "*good prospect*" for inflation to build up. We look for the JPY to remain in a range of ¥112-to-¥117 over the next 12 months.
- The **RBA** held its policy rate steady at a record-low 1.5% in October as it still expects the strengthening of economic conditions over the coming year to be '*gradual*'. Indeed, core inflation measures continue to drift toward the lower bound of the 2%-to-3% target although the RBA is seeing "*more consistent signs that non-mining business investment is picking up*". However, the Bank is in little rush to lift policy rates off the floor amid persistently slow wage growth. Additionally, if the recent weakness in consumer spending lingers, it risks delaying the first tightening of the cycle further out in 2018.
- The **CNY** steadily weakened throughout September, falling to a 6-week low of around 6.65 in early October. Although economic growth has been fairly well behaved, it was a little odd that, for the first time since February 2016, the PBoC cut banks' reserve requirements at the end of September, a move normally aimed at spurring growth. However, the central bank's statement did not allude to this; instead, it was cited as "*structural policy*" and its intent was to "*allocate more financial resources to inclusive finance and optimize lending structure*". The timing is also interesting given that it comes two weeks before the 19th National Congress of the Communist Party.

Foreign Exchange Forecasts

Local Currency per U.S. Dollar (averages)

	Actual	Forecasts			2017	2018	2019	2019	2019	2019	2019
	2017	2017	2017	2017							
	Sep	Oct	Nov	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Canadian Dollar											
C\$ per US\$	1.229	1.235	1.243	1.243	1.242	1.229	1.217	1.204	1.208	1.221	1.233
US\$ per C\$	0.814	0.810	0.805	0.805	0.805	0.814	0.822	0.830	0.828	0.819	0.811
Trade-weighted	101.7	101.2	100.7	100.7	101.2	102.4	103.3	104.2	103.7	102.5	101.3
U.S. Dollar											
Trade-weighted ¹	118.1	118.7	119.5	119.5	120.8	121.2	120.7	119.9	119.4	119.2	119.0
European Currencies											
Euro ²	1.19	1.19	1.19	1.19	1.17	1.15	1.17	1.19	1.21	1.22	1.23
Danish Krone	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.20	6.15	6.10	6.05
Norwegian Krone	7.84	7.85	7.85	7.85	7.80	7.80	7.75	7.70	7.65	7.60	7.50
Swedish Krone	8.01	8.05	8.05	8.05	8.05	8.00	8.00	7.95	7.85	7.80	7.70
Swiss Franc	0.96	0.95	1.00	1.00	1.00	1.00	1.00	1.05	1.05	1.05	1.05
U.K. Pound ²	1.33	1.33	1.33	1.33	1.32	1.30	1.30	1.32	1.33	1.34	1.34
Asian Currencies											
Chinese Yuan	6.57	6.65	6.68	6.68	6.77	6.82	6.78	6.71	6.66	6.65	6.63
Japanese Yen	111	112	113	113	115	116	116	117	117	116	116
Korean Won	1,132	1,145	1,160	1,160	1,170	1,165	1,160	1,150	1,150	1,145	1,140
Indian Rupee	64.5	64.9	65.4	65.4	65.2	64.3	63.4	62.5	61.9	61.5	61.1
Singapore Dollar	1.35	1.37	1.39	1.39	1.40	1.40	1.39	1.39	1.38	1.38	1.37
Malaysian Ringgit	4.21	4.25	4.30	4.30	4.35	4.35	4.30	4.30	4.30	4.30	4.25
Thai Baht	33.1	33.3	33.4	33.4	33.6	33.5	33.5	33.4	33.5	33.6	33.6
Philippine Peso	51.0	51.6	52.3	52.3	52.5	51.8	51.1	50.4	49.8	49.2	48.7
Taiwan Dollar	30.1	30.4	30.6	30.6	31.0	31.2	31.4	31.6	31.5	31.3	31.0
Indonesian Rupiah	13,313	13,430	13,550	13,550	13,640	13,600	13,560	13,520	13,470	13,420	13,365
Other Currencies											
Australian Dollar ²	0.797	0.792	0.786	0.786	0.783	0.788	0.793	0.798	0.804	0.810	0.817
New Zealand Dollar ²	0.725	0.724	0.722	0.722	0.725	0.733	0.740	0.748	0.754	0.760	0.767
Mexican Peso	17.83	17.95	18.10	18.10	18.35	18.45	18.60	18.70	18.80	18.80	18.85
Brazilian Real	3.13	3.15	3.20	3.20	3.25	3.30	3.30	3.35	3.35	3.40	3.40
Russian Ruble	57.7	58.1	58.6	58.6	59.2	59.5	59.7	59.9	59.3	58.3	57.3
South African Rand	13.2	13.2	13.3	13.3	13.3	13.2	13.1	13.0	13.0	12.9	12.9
Cross Rates											
Versus Canadian Dollar											
Euro (C\$/€)	1.46	1.47	1.48	1.48	1.45	1.42	1.43	1.44	1.46	1.49	1.52
U.K. Pound (C\$/£)	1.64	1.64	1.65	1.65	1.63	1.60	1.58	1.59	1.61	1.63	1.66
Japanese Yen (¥/C\$)	90	91	91	91	93	94	96	97	97	95	94
Australian Dollar (C\$/A\$)	0.98	0.98	0.98	0.98	0.97	0.97	0.97	0.96	0.97	0.99	1.01
Versus Euro											
U.K. Pound (£/€)	0.89	0.89	0.90	0.90	0.89	0.88	0.90	0.90	0.91	0.91	0.92
Japanese Yen (¥/€)	132	133	135	135	135	133	136	139	141	142	143

¹ Federal Reserve Broad Index ² (US\$ per local currency)

Interest Rate Forecasts

Percent (averages)

	Actual 2017 Sep	Forecasts 2017		2017	2018				2019		
		Oct	Nov	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Cdn. Yield Curve											
Overnight	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.50
3 month	0.97	1.00	1.00	1.05	1.25	1.50	1.70	1.95	2.15	2.35	2.35
6 month	1.15	1.15	1.15	1.20	1.40	1.60	1.80	2.00	2.25	2.40	2.40
1 year	1.41	1.40	1.40	1.45	1.65	1.85	2.05	2.25	2.40	2.60	2.60
2 year	1.53	1.55	1.60	1.60	1.75	1.95	2.15	2.30	2.50	2.65	2.65
3 year	1.59	1.60	1.65	1.65	1.85	2.00	2.20	2.35	2.55	2.70	2.70
5 year	1.75	1.75	1.85	1.85	2.00	2.15	2.30	2.45	2.65	2.80	2.80
7 year	1.88	1.95	2.00	2.00	2.15	2.25	2.40	2.55	2.70	2.85	2.95
10 year	2.05	2.10	2.20	2.20	2.30	2.40	2.50	2.65	2.80	3.00	3.05
30 year	2.41	2.50	2.55	2.55	2.65	2.70	2.80	2.95	3.10	3.25	3.30
1m BA	1.31	1.30	1.30	1.35	1.55	1.80	2.00	2.25	2.45	2.65	2.65
3m BA	1.43	1.40	1.40	1.45	1.65	1.90	2.10	2.35	2.55	2.75	2.75
6m BA	1.63	1.60	1.60	1.65	1.85	2.05	2.30	2.50	2.70	2.85	2.85
12m BA	1.83	1.85	1.85	1.90	2.10	2.30	2.45	2.65	2.85	3.00	3.05
Prime Rate	3.20	3.20	3.20	3.20	3.45	3.70	3.95	4.20	4.45	4.70	4.70
U.S. Yield Curve											
Fed funds	1.13	1.13	1.13	1.38	1.38	1.63	1.88	2.13	2.38	2.63	2.63
3 month	1.05	1.10	1.20	1.20	1.30	1.40	1.60	1.85	2.05	2.25	2.40
6 month	1.17	1.20	1.30	1.30	1.45	1.55	1.75	2.00	2.20	2.40	2.55
1 year	1.28	1.35	1.40	1.40	1.55	1.75	1.95	2.15	2.35	2.55	2.65
2 year	1.38	1.45	1.55	1.55	1.75	1.95	2.15	2.35	2.55	2.75	2.80
3 year	1.51	1.60	1.70	1.70	1.85	2.05	2.25	2.40	2.60	2.80	2.90
5 year	1.80	1.90	1.95	1.95	2.10	2.25	2.40	2.60	2.75	2.95	3.05
7 year	2.03	2.15	2.20	2.20	2.30	2.40	2.55	2.70	2.90	3.05	3.15
10 year	2.20	2.35	2.35	2.35	2.45	2.50	2.65	2.80	3.00	3.15	3.25
30 year	2.78	2.85	2.90	2.90	2.95	3.00	3.10	3.25	3.35	3.50	3.55
1m LIBOR	1.23	1.25	1.35	1.35	1.50	1.60	1.85	2.10	2.35	2.60	2.70
3m LIBOR	1.32	1.35	1.45	1.45	1.60	1.70	1.95	2.20	2.45	2.70	2.85
6m LIBOR	1.47	1.50	1.65	1.65	1.75	1.90	2.10	2.35	2.60	2.85	3.00
12m LIBOR	1.74	1.80	1.90	1.90	2.05	2.25	2.45	2.70	2.95	3.15	3.25
Prime Rate	4.25	4.25	4.25	4.35	4.50	4.60	4.85	5.10	5.35	5.60	5.75
Other G7 Yields											
ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
10yr Bund	0.40	0.45	0.55	0.55	0.75	0.85	0.95	1.05	1.20	1.30	1.45
BoE Repo	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	1.00
10yr Gilt	1.21	1.30	1.40	1.40	1.60	1.70	1.80	1.90	2.00	2.20	2.35
Boj O/N	-0.06	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
10yr JGB	0.02	0.03	0.04	0.04	0.06	0.07	0.08	0.10	0.10	0.11	0.12

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