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Forecast Summary (averages)

| | Actual | Forecasts | | | | | | | 2019 | | | |
|------------------|-------------|-------------------|-------|------------|-------|-------|-------|-------|-------|-------|-------|--|
| | 2017 Oct | 2017 Nov | Dec | 2018 Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| BoC overnight | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.50 | 1.75 | 2.00 | 2.25 | 2.50 | 2.50 | |
| 10-yr Canadas | 2.05 | 1.90 | 1.95 | 2.05 | 2.15 | 2.30 | 2.45 | 2.65 | 2.85 | 2.95 | 3.00 | |
| Fed funds | 1.13 | 1.13 ¹ | 1.38 | 1.38 | 1.63 | 1.88 | 2.13 | 2.38 | 2.63 | 2.63 | 2.63 | |
| 10-yr Treasuries | 2.36 | 2.30 | 2.35 | 2.40 | 2.50 | 2.60 | 2.80 | 2.95 | 3.15 | 3.20 | 3.25 | |
| C\$ per US\$ | 1.260 | 1.290 | 1.293 | 1.299 | 1.306 | 1.305 | 1.301 | 1.297 | 1.295 | 1.285 | 1.280 | |
| US\$/€ | 1.18 | 1.16 | 1.17 | 1.16 | 1.15 | 1.17 | 1.19 | 1.21 | 1.22 | 1.23 | 1.25 | |
| US\$/£ | 1.32 | 1.32 | 1.32 | 1.31 | 1.30 | 1.30 | 1.32 | 1.34 | 1.35 | 1.36 | 1.37 | |
| ¥/US\$ | 113 | 114 | 115 | 115 | 116 | 116 | 117 | 117 | 116 | 116 | 115 | |

¹ actual value for November 2017

Since the last issue of Rates Scenario (on October 5th):

- The **Bank of Canada's** policy statement on October 25th cleared up any ambiguity about the back-to-back (Jul-Sep) rate hikes being more than just an expedited removal of 2015's emergency easing... they weren't. The Bank asserted that "*while less monetary policy stimulus will likely be required over time, Governing Council will be cautious in making future adjustments to the policy rate.*" Before, we had the Bank moving four times in 2018, but judged the net risk was that the anticipated January 2018 resumption of rate hikes could be postponed. This net risk is now our base case, resulting in only 75 bps in cumulative tightening next year. We see the next rate hike in March, but this could be postponed further if NAFTA uncertainty has not yet been meaningfully ameliorated, and the housing market's reaction to forthcoming new mortgage rules proves more negative than anticipated.
- 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 on December 13th, 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). 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.
- The **BoE**, true to their word, raised rates 25 bps to 0.50% in November, erasing last year's emergency rate cut. Although their forecast is based on two more rate hikes over the next few years, how they proceed depends on a number of factors, including inflation (expected to approach 2% by the end of the forecast period), wage growth (a pick up is expected, but that's not a view shared among all policymakers), and Brexit. We look for the next move one year from now, in November 2018.

- The **ECB** “*downsized*” its QE program in October, extending it by nine months to September 2018, while slashing the size of the monthly purchases in half starting in January, to €30 bln from €60 bln. By refusing to call it a taper, and by repeating its previous guidance on rates (they will stay where they are “*well past the horizon of the net asset purchases*”) and on QE (the Governing Council “*stands ready to increase the APP*”), the ECB managed to pull off this change while preventing a rally in the euro.
- The **BoJ** remained glued to the sidelines at the last meeting, with one member dissenting again in favour of more stimulus. Governor Kuroda does not “*see the need to change anything*” but will have a debate on the exit strategy once 2% inflation is achieved. Seeing that core inflation is 0.7%, that conversation is a long time away. The **RBA** is also on hold, with worries about high household debt and slow income growth tempering their otherwise fairly upbeat outlook. **Mexico’s** central bank is walking a fine-line, raising rates four times this year (most recently, in June) in efforts to keep inflation expectations down, but the negative tone in the NAFTA negotiations continues to weigh on the MXN.

Foreign Exchange Forecasts

Local Currency per U.S. Dollar (averages)

| | Actual | Forecasts | | 2018 | | | | 2019 | | | |
|---------------------------------|-------------|-------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2017 Oct | 2017 Nov | 2017 Dec | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Canadian Dollar | | | | | | | | | | | |
| C\$ per US\$ | 1.260 | 1.290 | 1.293 | 1.299 | 1.306 | 1.305 | 1.301 | 1.297 | 1.295 | 1.285 | 1.280 |
| US\$ per C\$ | 0.793 | 0.775 | 0.773 | 0.770 | 0.766 | 0.766 | 0.769 | 0.771 | 0.772 | 0.778 | 0.781 |
| Trade-weighted | 99.6 | 97.5 | 97.3 | 97.0 | 96.5 | 96.5 | 96.6 | 96.7 | 96.8 | 97.3 | 97.6 |
| U.S. Dollar | | | | | | | | | | | |
| Trade-weighted ¹ | 120.2 | 121.1 | 121.3 | 121.7 | 122.0 | 121.8 | 121.4 | 121.1 | 120.7 | 120.3 | 119.9 |
| European Currencies | | | | | | | | | | | |
| Euro ² | 1.18 | 1.16 | 1.17 | 1.16 | 1.15 | 1.17 | 1.19 | 1.21 | 1.22 | 1.23 | 1.25 |
| Danish Krone | 6.33 | 6.40 | 6.35 | 6.35 | 6.30 | 6.25 | 6.20 | 6.15 | 6.10 | 6.05 | 6.00 |
| Norwegian Krone | 8.00 | 8.15 | 8.05 | 8.05 | 8.00 | 7.95 | 7.90 | 7.85 | 7.75 | 7.70 | 7.60 |
| Swedish Krone | 8.18 | 8.40 | 8.30 | 8.25 | 8.20 | 8.15 | 8.05 | 8.00 | 7.90 | 7.85 | 7.80 |
| Swiss Franc | 0.98 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.05 | 1.05 | 1.05 | 1.05 | 1.10 |
| U.K. Pound ² | 1.32 | 1.32 | 1.32 | 1.31 | 1.30 | 1.30 | 1.32 | 1.34 | 1.35 | 1.36 | 1.37 |
| Asian Currencies | | | | | | | | | | | |
| Chinese Yuan | 6.63 | 6.65 | 6.68 | 6.69 | 6.71 | 6.72 | 6.74 | 6.73 | 6.72 | 6.71 | 6.70 |
| Japanese Yen | 113 | 114 | 115 | 115 | 116 | 116 | 117 | 117 | 116 | 116 | 115 |
| Korean Won | 1,131 | 1,115 | 1,120 | 1,130 | 1,140 | 1,145 | 1,155 | 1,160 | 1,155 | 1,155 | 1,155 |
| Indian Rupee | 65.1 | 65.0 | 65.5 | 65.4 | 65.4 | 65.4 | 65.4 | 65.2 | 64.9 | 64.7 | 64.4 |
| Singapore Dollar | 1.36 | 1.36 | 1.37 | 1.38 | 1.38 | 1.38 | 1.39 | 1.39 | 1.39 | 1.38 | 1.38 |
| Malaysian Ringgit | 4.23 | 4.25 | 4.25 | 4.25 | 4.30 | 4.30 | 4.30 | 4.30 | 4.30 | 4.30 | 4.30 |
| Thai Baht | 33.2 | 33.2 | 33.4 | 33.5 | 33.5 | 33.6 | 33.7 | 33.7 | 33.6 | 33.6 | 33.5 |
| Philippine Peso | 51.4 | 51.5 | 51.8 | 51.8 | 51.8 | 51.9 | 51.9 | 51.9 | 51.9 | 51.9 | 51.9 |
| Taiwan Dollar | 30.3 | 30.2 | 30.4 | 30.5 | 30.5 | 30.6 | 30.7 | 30.7 | 30.7 | 30.6 | 30.6 |
| Indonesian Rupiah | 13,528 | 13,515 | 13,595 | 13,595 | 13,605 | 13,610 | 13,615 | 13,590 | 13,555 | 13,515 | 13,480 |
| Other Currencies | | | | | | | | | | | |
| Australian Dollar ² | 0.779 | 0.768 | 0.770 | 0.775 | 0.783 | 0.790 | 0.798 | 0.804 | 0.810 | 0.817 | 0.823 |
| New Zealand Dollar ² | 0.704 | 0.702 | 0.700 | 0.705 | 0.713 | 0.720 | 0.728 | 0.733 | 0.738 | 0.743 | 0.748 |
| Mexican Peso | 18.81 | 19.00 | 19.00 | 18.95 | 18.90 | 18.85 | 18.75 | 18.80 | 18.80 | 18.85 | 18.90 |
| Brazilian Real | 3.19 | 3.25 | 3.30 | 3.30 | 3.30 | 3.35 | 3.35 | 3.35 | 3.40 | 3.40 | 3.45 |
| Russian Ruble | 57.7 | 58.6 | 58.9 | 59.1 | 59.3 | 59.6 | 59.9 | 59.3 | 58.3 | 57.3 | 56.3 |
| South African Rand | 13.7 | 14.3 | 14.0 | 13.8 | 13.6 | 13.3 | 13.1 | 13.0 | 12.9 | 12.9 | 12.8 |
| Cross Rates | | | | | | | | | | | |
| Versus Canadian Dollar | | | | | | | | | | | |
| Euro (C\$/€) | 1.48 | 1.50 | 1.52 | 1.51 | 1.51 | 1.53 | 1.55 | 1.57 | 1.58 | 1.58 | 1.59 |
| U.K. Pound (C\$/£) | 1.66 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 | 1.72 | 1.73 | 1.74 | 1.74 | 1.75 |
| Japanese Yen (¥/C\$) | 90 | 88 | 89 | 89 | 89 | 89 | 90 | 90 | 90 | 90 | 90 |
| Australian Dollar (C\$/A\$) | 0.98 | 0.99 | 1.00 | 1.01 | 1.02 | 1.03 | 1.04 | 1.04 | 1.05 | 1.05 | 1.05 |
| Versus Euro | | | | | | | | | | | |
| U.K. Pound (£/€) | 0.89 | 0.88 | 0.89 | 0.89 | 0.88 | 0.90 | 0.90 | 0.90 | 0.91 | 0.91 | 0.91 |
| Japanese Yen (¥/€) | 133 | 132 | 135 | 134 | 133 | 136 | 139 | 141 | 142 | 143 | 143 |

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

Interest Rate Forecasts

Percent (averages)

| | Actual 2017 Oct | Forecasts 2017 Nov Dec | | 2018 Q1 Q2 Q3 Q4 | | | | 2019 Q1 Q2 Q3 Q4 | | | |
|-------------------------|-----------------------|------------------------------|-------|---------------------|-------|-------|-------|---------------------|-------|-------|-------|
| Cdn. Yield Curve | | | | | | | | | | | |
| Overnight | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.50 | 1.75 | 2.00 | 2.25 | 2.50 | 2.50 |
| 3 month | 0.95 | 0.85 | 0.85 | 1.00 | 1.15 | 1.40 | 1.65 | 1.90 | 2.15 | 2.35 | 2.35 |
| 6 month | 1.15 | 1.05 | 1.05 | 1.15 | 1.30 | 1.55 | 1.75 | 2.00 | 2.20 | 2.40 | 2.40 |
| 1 year | 1.39 | 1.30 | 1.30 | 1.45 | 1.60 | 1.80 | 2.00 | 2.20 | 2.40 | 2.60 | 2.60 |
| 2 year | 1.50 | 1.40 | 1.45 | 1.60 | 1.75 | 1.95 | 2.15 | 2.30 | 2.50 | 2.65 | 2.65 |
| 3 year | 1.55 | 1.45 | 1.50 | 1.65 | 1.80 | 2.00 | 2.15 | 2.35 | 2.55 | 2.65 | 2.70 |
| 5 year | 1.72 | 1.60 | 1.65 | 1.75 | 1.90 | 2.10 | 2.25 | 2.45 | 2.65 | 2.75 | 2.80 |
| 7 year | 1.86 | 1.75 | 1.80 | 1.90 | 2.00 | 2.15 | 2.35 | 2.55 | 2.70 | 2.85 | 2.90 |
| 10 year | 2.05 | 1.90 | 1.95 | 2.05 | 2.15 | 2.30 | 2.45 | 2.65 | 2.85 | 2.95 | 3.00 |
| 30 year | 2.41 | 2.25 | 2.30 | 2.35 | 2.45 | 2.60 | 2.80 | 3.00 | 3.15 | 3.25 | 3.30 |
| 1m BA | 1.31 | 1.30 | 1.30 | 1.40 | 1.55 | 1.80 | 2.00 | 2.25 | 2.45 | 2.65 | 2.65 |
| 3m BA | 1.42 | 1.40 | 1.40 | 1.50 | 1.65 | 1.90 | 2.10 | 2.35 | 2.55 | 2.75 | 2.75 |
| 6m BA | 1.63 | 1.60 | 1.60 | 1.70 | 1.85 | 2.05 | 2.25 | 2.45 | 2.65 | 2.80 | 2.80 |
| 12m BA | 1.83 | 1.80 | 1.80 | 1.90 | 2.05 | 2.25 | 2.45 | 2.60 | 2.80 | 2.95 | 2.95 |
| Prime Rate | 3.20 | 3.20 | 3.20 | 3.30 | 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 | 1.38 | 1.38 | 1.63 | 1.88 | 2.13 | 2.38 | 2.63 | 2.63 | 2.63 |
| 3 month | 1.09 | 1.20 | 1.30 | 1.30 | 1.40 | 1.65 | 1.85 | 2.05 | 2.25 | 2.40 | 2.40 |
| 6 month | 1.25 | 1.30 | 1.45 | 1.45 | 1.55 | 1.80 | 2.00 | 2.20 | 2.40 | 2.55 | 2.55 |
| 1 year | 1.40 | 1.50 | 1.60 | 1.65 | 1.80 | 2.00 | 2.20 | 2.40 | 2.60 | 2.70 | 2.70 |
| 2 year | 1.55 | 1.65 | 1.70 | 1.80 | 2.00 | 2.20 | 2.40 | 2.60 | 2.80 | 2.85 | 2.85 |
| 3 year | 1.68 | 1.75 | 1.80 | 1.90 | 2.10 | 2.30 | 2.45 | 2.65 | 2.85 | 2.90 | 2.95 |
| 5 year | 1.98 | 2.00 | 2.05 | 2.10 | 2.25 | 2.40 | 2.60 | 2.80 | 2.95 | 3.05 | 3.05 |
| 7 year | 2.20 | 2.20 | 2.20 | 2.30 | 2.40 | 2.55 | 2.70 | 2.90 | 3.05 | 3.15 | 3.20 |
| 10 year | 2.36 | 2.30 | 2.35 | 2.40 | 2.50 | 2.60 | 2.80 | 2.95 | 3.15 | 3.20 | 3.25 |
| 30 year | 2.88 | 2.80 | 2.80 | 2.85 | 2.90 | 3.05 | 3.20 | 3.35 | 3.50 | 3.55 | 3.60 |
| 1m LIBOR | 1.24 | 1.25 | 1.45 | 1.45 | 1.55 | 1.80 | 2.05 | 2.30 | 2.55 | 2.65 | 2.65 |
| 3m LIBOR | 1.36 | 1.40 | 1.60 | 1.60 | 1.75 | 1.95 | 2.20 | 2.45 | 2.70 | 2.85 | 2.85 |
| 6m LIBOR | 1.54 | 1.60 | 1.75 | 1.75 | 1.90 | 2.15 | 2.35 | 2.60 | 2.85 | 3.00 | 3.00 |
| 12m LIBOR | 1.82 | 1.85 | 2.00 | 2.05 | 2.20 | 2.45 | 2.70 | 2.95 | 3.15 | 3.25 | 3.25 |
| Prime Rate | 4.25 | 4.25 | 4.50 | 4.50 | 4.60 | 4.85 | 5.10 | 5.35 | 5.60 | 5.75 | 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 | 0.25 | 0.25 |
| 10yr Bund | 0.43 | 0.50 | 0.55 | 0.65 | 0.75 | 0.90 | 1.00 | 1.15 | 1.25 | 1.40 | 1.50 |
| BoE Repo | 0.25 | 0.50 ¹ | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 |
| 10yr Gilt | 1.35 | 1.45 | 1.50 | 1.55 | 1.65 | 1.75 | 1.85 | 2.00 | 2.15 | 2.30 | 2.45 |
| Boj O/N | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 |
| 10yr JGB | 0.06 | 0.07 | 0.05 | 0.06 | 0.07 | 0.08 | 0.10 | 0.10 | 0.11 | 0.12 | 0.12 |

¹ actual value for November 2017

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