

Rates Scenario for October 10, 2025

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

Forecast Summary

(avg.)	Actual	Forecasts									
	2025 Sep	2025				2026				2026	
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	Q2	Q3	Q4
BoC overnight ¹	2.50	2.50	2.50	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00
10-yr Canadas	3.22	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.15
Fed funds ¹	4.13	3.88	3.88	3.63	3.63	3.63	3.38	3.38	3.13	2.88	2.88
10-yr Treasuries	4.12	4.15	4.15	4.10	4.10	4.10	4.10	4.05	4.05	4.00	4.00
C\$ per US\$	1.38	1.40	1.39	1.38	1.37	1.37	1.37	1.36	1.36	1.35	1.34
US\$/€	1.17	1.17	1.17	1.18	1.18	1.18	1.19	1.19	1.19	1.19	1.20
US\$/£	1.35	1.33	1.35	1.36	1.36	1.36	1.37	1.37	1.37	1.37	1.38
¥/US\$	148	150	148	145	145	145	145	144	144	144	143

¹ end of period

Sources: BMO Economics, Haver Analytics

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Canada-U.S. Rates

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Falling Rates This Fall

The Federal Reserve and Bank of Canada restarted policy rate parings last month after pausing for nine and six months, respectively. The cuts also occurred on the same day, September 17. Although the next announcement dates are again the same (October 29 and December 10), we reckon they will not be moving in tandem as the season unfolds. We are expecting two quarter-point cuts from the Fed by yearend and only one from the BoC. Although both central banks are approaching further rate cuts cautiously, the different cadences reflect the fact that the Fed's current 4.00%-to-4.25% target range for fed funds is still well above neutral. The FOMC's median projection for the longer-run level is 3.00% with a central tendency of 2.75%-to-3.50%. Meanwhile, the Bank's current 2.50% policy rate is already in the bottom half of its 2.25%-to-3.25% neutral range. As Fed rate cuts outpace, we look for Canada-U.S. bond yield spreads to become less negative and the loonie to gain against the greenback.

Federal Reserve: The FOMC is expected to cut rates by 25 bps on October 29. However, recent developments have cast a thicker cloud of uncertainty over the decision. The partial government shutdown stopped the flow of data from the Commerce Department's various bureaus as of October 1 (although it seems that some folks will be called back to do the CPI). It is unknown how long the shutdown will last. In the meantime, the Fed will be relying more on the anecdotal information it gathers directly along with other data releases. Indeed, the more established ones among the latter are pointing to labour market weakness persisting if not worsening in September. For example, ADP's report showed private payrolls dropping by 32k; the third negative print in the past four months. The Conference Board's net 'jobs hard to get' metric jumped by its second-largest amount in the past 17 months (this metric correlates well with the jobless rate). Although the two ISM surveys' employment components inched higher, they remain well below 50... in contraction territory.

However, the Fed is flying more blind when it comes to well-established surrogates for the official inflation data. This alone could make some Fed officials more cautious amid reports of more businesses planning to raise prices in the period ahead (as the limits of margin compression and drawing down pre-tariff inventories are being reached).

Also, caution is probably being prodded by record high equity prices and their contribution to more accommodative financial conditions and a burgeoning wealth effect. The latter is a factor fuelling spending by higher income households, a theme permeating the unusually large upward (second) revision to real PCE/GDP in Q2 and continued strength in real PCE during July and August (a pair of 0.4% monthly moves). The strong momentum led us to upgrade our real PCE and GDP forecasts for Q3 (PCE 3.1% annualized vs. 2.4% before, GDP 2.8% vs. 2.3%). Reducing policy rates with growth running a full percentage point above potential could concern some policymakers.

Recall (from the 'dot plot') that the FOMC's conviction about another 50-bps worth of easing this year was not that strong to begin with. There were 10 participants in the two-or-more rate cuts camp and nine in the one-or-none group. In any event we expect the Fed's rate cut cadence to slow past the turn of the year (to once per quarter), lowering the fed funds range to 2.75%-to-3.00% (just a tad below neutral) as next year unfolds.

Bank of Canada: We look for the Bank to keep its policy rate at 2.50% on October 29, with the latest Labour Force Survey's stronger-than-expected results supporting our view. Before the report, the OIS market had been pricing better-than-even odds of such an action, but this was subsequently ratcheted down to less than 50%.

The Summary of Governing Council deliberations for the prior policy decision (a 25-bp rate cut on September 17) were released October 1. Looking forward, the summary said: *"Members agreed that they would continue to emphasize that, with uncertainty still high, they would be guided by their assessment of the risks to inflation. They also agreed they would continue to look over a shorter horizon than usual and take a risk management approach. They recognized there were risks on both sides and agreed they would be ready to respond to new information."* As such, a late October follow-up rate cut would likely hinge on the results from key reports such as the Labour Force Survey and CPI for September. And the first shoe has dropped. The CPI report is due October 21. We don't expect it will display the disinflationary details that would prompt a rate cut, but the net risk is that it could.

However, we reckon the cumulative evidence from the various reports over the months ahead will indeed paint a picture of disinflationary economic performance with lingering USMCA uncertainty weighing heavy on confidence. This is the stuff of further gradual policy rate reductions. We look for the Bank to cut by 25 bps in December and March, with the policy rate ending at 2.00%, a notch below the neutral range.

Bond yields: Ten-year Treasury yields averaged 4.12% in September; an 11-month low prodded by the resumption of Fed rate reductions. Through October 9, they are averaging a comparable 4.13%. Although additional policy rate cuts should exert some downward pressure on yields, we reckon a 4.00% monthly mark should hold, short of escalating risks of recession or mounting prospects for chunky Fed rate cuts (>25 bps) [\[1\]](#). Note that, on a daily basis (constant maturity), the 4.14% close on October 7 made it exactly a year that yields have been closing above 4.00%.

There is a mixture of factors causing this 4.00% 'line in the sand'. First, there is deteriorating fiscal fundamentals. Even if additional deficits caused by the One Big Beautiful Bill Act are offset by additional tariff revenue (which we reckon is unlikely), the paths for deficits, debt and interest payments are still unsustainable. Second, there is lingering economic policy uncertainty and risks. Third, there are lurking concerns about future Fed independence and U.S. dollar hegemony.

Meanwhile, Canada-U.S. 10-year yield spreads averaged -90 bps last month and, through October 9, are averaging a few basis points more negative. This is a long way from the record -139 bps back in February when BoC rate cuts were being unmatched by the Fed. But it is also better than the -84 bps registered in August, which seems to have marked the end of the relative selloff. We are chalking up the slight rebound as a stabilization pattern more than a trend reversal. We still expect that spreads will resume moving less negative as future Fed rate cuts outpace the BoC's. Part of the pattern also reflects Canada's own fiscal risk, with the federal budget slated for November 4 (and we're pencilling in at least a \$70 billion "all-in" shortfall).

U.S. dollar: With the FOMC reducing policy rates in September, the Fed's broad trade-weighted dollar index (TWDI) weakened 0.4% as did the Wall Street Journal's index (which correlates well with the Fed's advanced foreign

economies TWDI). This slightly more than reversed August's advance on both fronts. However, through October 9, both averages gained a little ground, which we doubt will stick with the Fed poised to pare rates again at month-end. We judge Fed easing prospects will continue acting as the big dollar's dominant drag well into next year.

Also weighing are investor concerns about the tandem of fiscal profligacy and threats to Fed independence. Recall the initial narrative was that the U.S. dollar would appreciate as the Administration built its tariff wall. A smaller trade deficit would result in less downward pressure on the greenback, other things equal... which they were not. America's reliance on net foreign savings to finance its burgeoning budget deficit combined with some hesitancy in net capital inflows (partly owing to economic policy uncertainty) and caused the currency to depreciate... from which it hasn't recovered. By this December, we see the Fed's broad index down more than 7% from January's record high (and more than 9% against the advanced trade partners), with a further 1.5%-to-2.0% slip by the end of next year.

Canadian dollar: The loonie averaged C\$1.383 last month (US\$0.723), weakening 0.2% against the greenback (which itself weakened 0.4%). So far this month, the average has weakened further with the loonie closing at C\$1.40 on October 9, when the market was pricing better-than-even odds of a follow-up rate cut at October-end. The last time it closed here was in April. And it is not helping that Canada-U.S. trade tensions continue to persist, with new 'Section 232' tariffs hitting (or soon to hit) lumber and derivative products, medium- and heavy-duty trucks, and select pharmaceutical products.

In the wake of the stronger-than-expected Labour Force Survey the market lowered its rate cut expectations (to less-than-even odds) which helped the Canadian dollar a little. It's currently trading slightly under C\$1.40. Looking ahead, as Fed rate cuts outpace those of the BoC, we look for the loonie to gain against the greenback. But the gains are going to be restrained by uncertainty surrounding the upcoming renegotiation of the USMCA. We look for the Canadian dollar to average C\$1.375 (US\$0.727) by December and appreciate further to \$1.333 (US\$0.752) by the end of next year.

[1] Supporting this view, the market has maintained average yields above 4.00% for 25 of the past 27 months (including October-to-date), with only August-September 2024 slipping below. At the time, speculation over the FOMC's inaugural rate cut was running rampant, and then the Fed surprised with a 50 bp action. Since October 7, 2024, the lowest daily closes (constant maturity) have been 4.01%, which has happened twice. First, on April 4, in the wake of reciprocal tariffs being introduced, which fanned fears of U.S. and global recession. Second, on September 11, when speculation about the resumption of Fed rate cuts, and a possible 50-bp action to mark the one-year anniversary of the surprise inaugural move, was running rampant. [↩](#)

Overseas

Jennifer Lee, Senior Economist

There's a bit of time before the next policy announcements from the ECB and the BoJ (both on October 30), the RBA (November 4), and the BoE (November 6). A **couple of our views have not changed** since the previous [Rates Scenario](#) (September 18), but **we have changed our calls for the other two central banks**.

We continue to look for one more rate cut to come at year-end for the **ECB**, although we are not pounding the table on that call as there is a lot of time to go. Besides, the September CPI pick-up to a 5-month high of 2.2% gives the ECB some cover, although it was expected. A move at the October 30 meeting is unlikely as policymakers have said that they will not have enough new information; so, the focus will be on the December 18 gathering. The uncertainty over President Macron's political future throws a curveball at financial markets but the revolving door of the Prime Minister's Office is unlikely to have any bearing on the ECB's plans. Then, there is the **BoE**. It may be finished easing, but the much-divided MPC will be watching inflation (note that food CPI in the U.K. is higher than the Euro Area, the U.S. and Canada), wages and Chancellor Reeves' Autumn Budget (to be tabled on November 26).

We have revised our outlook for the **RBA**. We stopped looking for a November rate cut to 3.35% following Governor Bullock's more hawkish-leaning press briefing on September 30, when the RBA announced it would leave the cash rate unchanged. After a reporter asked about August inflation, which accelerated for the second month in a row to an above-expected 3% pace (or the upper end of the official 2%-to-3% target), the Governor replied that she does not believe inflation is "*running away, but we just need to be a little bit cautious*." And, that their moves will be data-dependent. Bear in mind that the Q3 quarterly CPI, which the RBA takes notice of, will be released the week before this policy meeting, and it has the potential to swing the rate decision in another direction.

Finally, there is the **BoJ**. The LDP's new leader, Sanae Takaichi, along with some revised data, caused us to very reluctantly throw out our longstanding call for the BoJ to tweak rates higher in October. First, the data. Despite stronger economic growth in Q2 (+2.2% a.r.), the fact that real cash earnings have contracted for two months in a row (August was far worse than expected at -1.4% y/y, while July's 0.5% y/y gain is now revised to a 0.2% y/y drop) will cause some policymakers to second guess whether the consumer can handle a rate hike. Note that the jobless rate had also recently picked up. Plus, the new LDP leader, who called last year's BoJ rate hike "*stupid*", has plans for more expansionary fiscal policy, and that may prompt the central bank to sit out the October meeting to gauge the impact. Speaking of the new LDP leader, there are questions about whether she can hold onto her job given that the **coalition government fell apart** and the Komeito Party and the Democratic Party For the People have said they will not support her as PM. Parliament will decide the next leader on October 20. So, we will withdraw our call for a BoJ rate hike until further notice, but we will admit that the reason for tightening policy has become a little less compelling. Then there's the JPY. It weakened sharply after Takaichi's election, prompting her to speak out to say that she is not purposely weakening the currency.

Foreign Exchange Forecasts

(local currency per US\$: avg.)	Actual 2025 Sep	Forecasts 2025				2026				2026		
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	Q2	Q3	Q4	
Canadian Dollar												
C\$ per US\$	1.38	1.40	1.39	1.38	1.37	1.37	1.37	1.36	1.36	1.35	1.34	
US\$ per C\$ ¹	0.723	0.714	0.721	0.727	0.729	0.731	0.733	0.735	0.737	0.742	0.748	
Trade-weighted	113.5	112.5	113.2	113.9	114.2	114.4	114.6	114.9	115.1	115.8	116.5	
U.S. Dollar												
Trade-weighted ²	120.5	121.2	120.6	119.9	119.8	119.6	119.5	119.3	119.2	118.7	118.3	
European Currencies												
Euro ¹	1.17	1.17	1.17	1.18	1.18	1.18	1.19	1.19	1.19	1.19	1.20	
Danish Krone	6.36	6.45	6.40	6.35	6.30	6.30	6.30	6.30	6.30	6.25	6.25	
Norwegian Krone	9.94	10.00	9.90	9.85	9.80	9.80	9.80	9.80	9.75	9.70	9.70	
Swedish Krona	9.37	9.50	9.40	9.35	9.35	9.30	9.30	9.30	9.30	9.25	9.20	
Swiss Franc	0.80	0.80	0.80	0.79	0.79	0.79	0.79	0.79	0.79	0.78	0.78	
U.K. Pound ¹	1.35	1.33	1.35	1.36	1.36	1.36	1.37	1.37	1.37	1.37	1.38	
Asian Currencies												
Chinese Yuan	7.12	7.13	7.13	7.13	7.13	7.13	7.12	7.12	7.12	7.11	7.10	
Japanese Yen	148	150	148	145	145	145	145	144	144	144	143	
Korean Won	1,393	1,420	1,425	1,425	1,425	1,425	1,425	1,425	1,420	1,420	1,420	
Indian Rupee	88.3	88.8	88.8	88.8	88.8	88.8	88.7	88.7	88.7	88.6	88.5	
Singapore Dollar	1.28	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	
Malaysian Ringgit	4.21	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	
Thai Baht	32.0	32.7	32.7	32.7	32.6	32.6	32.6	32.6	32.6	32.6	32.5	
Philippine Peso	57.3	58.3	58.3	58.4	58.4	58.3	58.3	58.3	58.3	58.2	58.2	
Taiwan Dollar	30.4	30.6	30.6	30.6	30.6	30.5	30.5	30.5	30.5	30.5	30.5	
Indonesian Rupiah	16,522	16,555	16,550	16,540	16,535	16,530	16,525	16,520	16,510	16,495	16,480	
Other Currencies												
Australian Dollar ¹	0.660	0.655	0.658	0.660	0.661	0.662	0.663	0.663	0.664	0.667	0.669	
New Zealand Dollar ¹	0.588	0.580	0.590	0.600	0.601	0.602	0.603	0.603	0.604	0.607	0.609	
Mexican Peso	18.48	18.40	18.35	18.25	18.25	18.20	18.20	18.15	18.15	18.10	18.00	
Brazilian Real	5.36	5.35	5.30	5.25	5.25	5.20	5.20	5.15	5.15	5.10	5.00	
South African Rand	17.4	17.2	17.2	17.3	17.2	17.2	17.2	17.2	17.1	17.1	17.0	
Cross Rates												
Versus Canadian Dollar												
Euro (C\$/€)	1.62	1.63	1.63	1.62	1.62	1.62	1.62	1.62	1.61	1.61	1.60	
U.K. Pound (C\$/£)	1.87	1.86	1.87	1.87	1.87	1.87	1.86	1.86	1.86	1.85	1.84	
Japanese Yen (¥/C\$)	107	107	106	105	106	106	106	106	106	107	107	
Australian Dollar (C\$/A\$)	0.91	0.92	0.91	0.91	0.91	0.91	0.90	0.90	0.90	0.90	0.89	
Versus Euro												
U.K. Pound (£/€)	0.87	0.88	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	
Japanese Yen (¥/€)	174	175	173	171	171	171	171	171	171	171	172	

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

Sources: BMO Economics, Haver Analytics

Interest Rate Forecasts

(% : avg.)	Actual 2025 Sep	Forecasts 2025				2026				2026		
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	Q2	Q3	Q4	
Canada												
Overnight target (period end)	2.50	2.50	2.50	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00	
Overnight target	2.65	2.50	2.50	2.34	2.25	2.25	2.03	2.00	2.00	2.00	2.00	
CORRA ²	2.70	2.53	2.52	2.35	2.26	2.26	2.04	2.00	2.00	2.00	2.00	
3-month bills	2.48	2.40	2.35	2.25	2.15	2.15	1.95	1.95	1.95	1.95	1.95	
6-month	2.47	2.35	2.35	2.25	2.20	2.20	2.05	2.05	2.05	2.05	2.05	
1-year	2.48	2.40	2.35	2.25	2.20	2.15	2.05	2.05	2.05	2.10	2.15	
2-year bonds	2.51	2.45	2.35	2.30	2.20	2.10	2.00	2.05	2.05	2.15	2.25	
3-year	2.51	2.50	2.45	2.40	2.35	2.35	2.30	2.30	2.35	2.40	2.50	
5-year	2.77	2.75	2.70	2.70	2.65	2.65	2.60	2.60	2.65	2.65	2.70	
7-year	2.92	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.95	
10-year	3.22	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.15	
30-year	3.67	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	
Prime rate	4.85	4.70	4.70	4.54	4.45	4.45	4.23	4.20	4.20	4.20	4.20	
United States												
Fed funds target (period end)	4.13	3.88	3.88	3.63	3.63	3.63	3.38	3.38	3.13	2.88	2.88	
Fed funds target	4.27	4.10	3.88	3.71	3.63	3.63	3.52	3.38	3.34	3.09	2.88	
EFFR ³	4.22	4.08	3.86	3.70	3.61	3.61	3.51	3.37	3.33	3.08	2.88	
SOFR ⁴	4.30	4.12	3.88	3.71	3.62	3.62	3.52	3.37	3.34	3.08	2.87	
3-month bills	4.07	4.00	3.80	3.65	3.55	3.55	3.45	3.30	3.25	3.00	2.80	
6-month	3.84	3.80	3.65	3.50	3.45	3.45	3.35	3.25	3.25	3.05	2.90	
1-year	3.66	3.65	3.55	3.45	3.40	3.35	3.30	3.20	3.15	3.00	2.90	
2-year notes	3.57	3.60	3.55	3.45	3.40	3.35	3.25	3.20	3.15	2.95	2.90	
3-year	3.55	3.60	3.55	3.50	3.45	3.45	3.40	3.35	3.30	3.20	3.15	
5-year	3.66	3.75	3.70	3.70	3.65	3.60	3.60	3.55	3.55	3.45	3.45	
7-year	3.86	3.90	3.90	3.90	3.85	3.85	3.85	3.80	3.80	3.75	3.70	
10-year	4.12	4.15	4.15	4.10	4.10	4.10	4.10	4.05	4.05	4.00	4.00	
30-year bonds	4.74	4.70	4.70	4.70	4.70	4.65	4.65	4.65	4.65	4.60	4.60	
Prime rate	7.39	7.23	7.00	6.84	6.75	6.75	6.65	6.50	6.47	6.21	6.00	
Other G7												
ECB Deposit Rate ¹	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	
10yr Bund	2.72	2.70	2.70	2.70	2.65	2.65	2.60	2.55	2.50	2.40	2.30	
BoE Bank Rate ¹	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	
SONIA ⁵	3.97	3.97	3.97	3.97	3.97	3.97	3.97	3.97	3.97	3.97	3.97	
10yr Gilt	4.68	4.65	4.65	4.65	4.60	4.60	4.55	4.50	4.50	4.40	4.30	
BoJ O/N ¹	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
10yr JGB	1.61	1.58	1.54	1.50	1.49	1.48	1.48	1.47	1.46	1.43	1.41	

¹ end of period; ² Canadian Overnight Repo Rate Average; ³ Effective Fed Funds Rate; ⁴ Secured Overnight Financing Rate;

⁵ Sterling Overnight Index Average

Sources: BMO Economics, Haver Analytics

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