

Rates Scenario for March 12, 2026

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Forecast Summary

(avg.)	Actual	Forecasts					2026		2027			
	2026	2026	2026	2026	2026	2026	2026	2027	2027	2027	2027	2027
	Feb	Mar	Apr	May	Jun	Q3	Q4	Q1	Q2	Q3	Q4	
BoC overnight ¹	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
10-yr Canadas	3.29	3.45	3.40	3.40	3.40	3.35	3.30	3.35	3.40	3.45	3.50	
Fed funds ¹	3.63	3.63	3.63	3.63	3.63	3.38	3.13	3.13	3.13	3.13	3.13	
10-yr Treasuries	4.13	4.20	4.15	4.15	4.10	4.10	4.00	4.05	4.05	4.10	4.15	
C\$ per US\$	1.36	1.36	1.36	1.36	1.35	1.35	1.34	1.33	1.32	1.31	1.30	
US\$/€	1.18	1.15	1.15	1.16	1.16	1.17	1.18	1.19	1.20	1.21	1.22	
US\$/£	1.36	1.33	1.33	1.34	1.34	1.35	1.36	1.36	1.37	1.37	1.38	
¥/US\$	155	159	159	158	158	157	155	153	151	148	146	

¹ end of period

Sources: BMO Economics, Haver Analytics

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Canada-U.S. Rates

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Oil Fuelling Fed Hesitancy

The spike in oil prices owing to the Iranian conflict is stoking stagflation risk, at a time when job growth has already slowed to a crawl and inflation is still uncomfortably sticky. For February, payroll job growth averaged 13k over the past year and just 6k over the past three months. Yearly total and core CPI inflation was 2.4% y/y and 2.5% y/y, respectively, with both three-month trends faster at 3.0% annualized. And the (lagged) PCE price metrics are seemingly running hotter.

In the last post-FOMC presser (January 28), Chair Powell asserted that the “*tension*” between the Fed’s price stability and maximum employment goals had lessened... “*I think that the upside risks to inflation and the downside risks to employment have probably both diminished a bit*” and now it is about “*how you weigh the risks*”. Amid higher oil prices and some erosion in business and consumer confidence, we reckon **both risks have risen with a skew to the upside for inflation**. We look for Powell to highlight these higher, skewed risks in the March 18 press conference.

We also look for the **Fed to keep policy rates unchanged**, with the target range for the fed funds rate at 3.50%-to-3.75%. This will mark the second consecutive hold after 75 bps of rate cuts during the final three meetings of 2025. Recall the year began with a nine-month pause owing to heightened economic policy uncertainty—which has started drifting up again—and the stagflation risk posed by tariffs—which is now being posed by oil prices. In other words, the 2026 edition of policy pause could last just as long (or possibly longer).

With policy rates already “*within a range of plausible estimates of neutral*”, the Fed was going to move more cautiously anyway this year. And now, against the background of mounting stagflation risk and economic policy uncertainty, the caution flag is waving more vigorously. Consequently, we have modified our forecast and **now expect two quarter-point rate cuts this year starting in September** (it was three beginning in June before). The market has also chopped its expectation, from 2.4 moves just before the conflict with Iran began to less than one action currently.

Meanwhile, the FOMC's median fed funds projection in the 'dot plot' is unlikely to change from December, with single quarter-point cuts expected this year and next. Elsewhere in the Summary of Economic Projections (SEP), we await stagflation-themed adjustments to the FOMC's median forecasts. The previous projections for 2026 Q4 were: real GDP 2.3% y/y, unemployment rate 4.4%, total PCE inflation 2.4% y/y, and core PCE inflation 2.5% y/y. We look for a one-tenth downward adjustment in growth and a one-tenth upward adjustment in joblessness and core inflation. Oil prices-influenced headline inflation could see a 0.2 ppt (or higher) increase.

Bank of Canada: The **BoC faces the same new stagflation risks, although not as intensely as the Fed.** Canadian dollar appreciation dampens some of the impact of spiking oil prices on inflation. And Canada's relatively large net oil exporter position lessens some of the growth headwinds from purchasing power and confidence erosion. But these risks still matter meaningfully for the Bank of Canada.

On March 18, the **Bank is expected to keep the policy rate unchanged at 2.25%**, or the bottom of the BoC's 2.25%-to-3.25% estimated range for neutral. This will mark the third consecutive hold after cutting rates a total of 275 bps starting in June 2024 and over consecutive confabs, apart from a six-month pause during March-September 2025. We have argued that the current pause could last a lot longer. Interestingly, the market is now expecting a 25 bp rate hike by this September. We judge this to be premature.

Inflation on the ground is behaving heading into this riskier period. In January, the yearly changes in the primary core metrics (trim mean and median CPI) were running in the 2.4% y/y-to-2.5% y/y range with the three-month trends running in the 1.1%-to-1.3% annualized range (the latter being multi-year lows). And the labour market is heading into this riskier period with a stabilizing/slightly improving profile. Also in January, monthly job growth was averaging 11.2k over the past 12 months and 12.5k over the past three. The unemployment rate was 6.5%, matching an 18-month low. Although flattered by an outsized drop in the labour force, the jobless rate seems to be stabilizing well below its 7.0%-plus cyclical peaks. Meanwhile, the broader output gap was estimated in the range of -1.5% to -0.5% for 2025Q4. Overall, the economy may have some ability to absorb higher oil prices (for a little while) before inflation alarms start sounding. And the Bank may have some time to wait and see what happens.

At the same time, the reason the policy rate is at the lower bound of the neutral range is to provide as much stimulus as possible, without becoming unequivocally net accommodative, to help with the structural adjustments in the economy catalyzed by shifts in U.S. trade policy. And there is still the massive hurdle of the review of the USMCA, which is due by July 1. Although there is a rising risk of a rate hike owing to spiking oil prices, for the time being, this is simply countering the net risk of a rate cut that had existed previously.

Bond yields: On February 27, the day before the Iranian conflict started, 10-year Treasury yields closed at 3.97%. This is a rare event. Since early October 2024, sub-4.00% closes have occurred on only five occasions (the other four during October 2025). They never last, with the monthly average always settling above the mark. This is happening again: yields have backed up 24 bps (by March 11) as the conflict continues. The combination of escalating inflation risks due to spiking oil prices, and consequently more hesitant Fed policy, is a powerful one-two punch.

Until oil prices and Fed expectations turn, we look for yields to trade around current levels or move even higher. However, even after oil prices fade and the Iranian conflict calms (our working assumptions), crude oil will still be averaging above where it was before for a while longer (excess supply pressure will eventually guide convergence). We forecast WTI to average \$75 per barrel this year (and at or above \$90 for March and April), compared to \$60 before. This should leave a lingering inflation concern in investors' minds, not to mention the fact that the Fed is now likely to cut policy rates by a total of 50 bps this year, compared to 75 bps before. These developments should constrain any subsequent rally in yields.

Meanwhile, deteriorating fiscal fundamentals (for which investors are demanding higher yields to compensate) should also act to keep yields north of 4.00%. Deficits, debt, and interest payments were already on unsustainable paths before the One Big Beautiful Bill Act (OBBBA) applied further strain, with tariff revenues coming up short. Investors are also concerned about the erosion of both Fed independence and U.S. dollar dominance. Looking ahead,

additional Fed rate cuts could exert some downward pressure on yields. However, our fundamental view is that a 4.00% (average) monthly floor should hold, short of mounting prospects for chunky Fed cuts (>25 bps) or escalating risks of recession.

Elsewhere, 10-year Government of Canada bonds have been underperforming their U.S. counterparts. Since the Iranian conflict started, they have moved less negative by 11 bps to -73 bps (March 11). The market has been betting that the inflation impact of higher oil prices will cause the Bank of Canada to hike rates later this year. However, if our Bank call is correct that there will be no hikes, Canadas should regain some of this month's underperformance. But, once the other policy asymmetry of Fed easing-BoC holding arrives, spreads should be trending less negative again. The ride to the eventual low -60s range should be a bumpy one, with Canada's own fiscal deterioration on both the federal and provincial fronts prodding some volatility. That said, for the oil-producing provinces (Alberta, Saskatchewan, and Newfoundland & Labrador), their fiscal pictures should be improving... other things equal.

U.S. dollar: From the pre-conflict close on February 27, the greenback has been gaining ground. By March 11, it was up 1.2% according to the Wall Street Journal's index, as the dollar assumed its traditional safe-haven role amid escalating geopolitical and global economic risks. The greenback was also bolstered by prospects for higher oil prices greasing a stagflation turn in the domestic data that could leave Fed policy rates unchanged for longer.

Unless the Iranian conflict intensifies and the above assortment of risks rises further, we reckon we are close to (or have seen) the dollar's highs. But it is more uncertain how long the currency will retain its recent gains. Our working assumption is that the Iranian conflict will eventually calm enough to smother most (but not all) of the geopolitical and global economic risks. Oil prices, in their role as a global risk barometer, should fall further, but we see them still averaging a bit above where they were before. And we now see fewer Fed rate cuts (50 bps total) this year than we did before (75 bps). Meanwhile, economic policy uncertainty is drifting up again. On balance, this year's outcome is still a weakening profile for the greenback, albeit not as weak as before. We see the Fed's trade-weighted dollar index against the majors averaging down around 2% y/y by December, compared to around 2½% before.

Canadian dollar: Higher oil prices have helped the loonie gain against the greenback, despite the escalating geopolitical and global economy risks along with fading Fed rate cut prospects that are boosting the big dollar. From the close on February 27, the Canadian dollar is up a net 0.4% (by March 11). The market's betting on a Bank of Canada rate hike this year is also supporting the currency.

High oil prices and BoC rate hike hopes should both eventually fade as this year unfolds causing some pullback in the loonie. But, with another 50 bps of Fed rate cuts coming later this year and the Bank on a long pause, we look for the CAD to follow an appreciating trend to C\$1.33 (US\$0.752), or around 3½% over the year, by the end of 2026. That is better than the rest of the pack, as the Canadian economy rebounds after being hit disproportionately by U.S. trade policy.

However, the key risk for the Canadian dollar remains U.S. trade policy, with the review of the USMCA scheduled by July 1. U.S. negotiations with Canada (called "*challenging*" by the USTR) have started (finally) but they could be volatile given the past 14 months. Although IEEPA-imposed tariffs were ruled illegal, they were not that significant for Canada (but their removal does reduce tariff tail risk for Canada). They applied only to goods not compliant with the USMCA. The sectoral tariffs are more meaningful for Canada, and a flurry of new ones along with other 'legal' duties are about to unfold. The weight of U.S. trade policy on the loonie could mount quickly.

Overseas

Jennifer Lee, Senior Economist

Best laid plans... that phrase seems quite appropriate these days. After all, central banks were comfortably on a set path that suited their domestic economies. For example, the BoJ and the RBA were tightening, the ECB and the BoC were parked on the side, and the BoE was getting ready for perhaps one more trim. Then, the conflict in Iran began, and the resulting disruptions to energy supplies in the Middle East have the potential for big implications for growth, inflation and monetary policy.

Take the **ECB**. There are growing expectations that President Lagarde and the rest of the Governing Council will be forced to raise rates before year-end. Even before this episode, Euro Area inflation had already edged up, from 1½-year lows of 1.7% in January, to 1.9% in February. Yes, that is still below target for two months in a row (last seen in 2021), but that may not last given the surge in energy prices. Core inflation also unexpectedly crept up to a 3-month high of 2.4%, and services inflation is still sticky at 3.4%. In March, expect another acceleration on the back of higher energy costs, which usually account for about 10% of the CPI basket. European natural gas prices have surged over 55% in March compared to February, although at about €50MWh, they are far from the peak hit when Russia invaded Ukraine in 2022. However, governments are strategizing on how to limit the hit to the private sector. Some countries, including France, Italy and Spain, warned that there will be consequences if any businesses are discovered price gouging at the pumps. In any event, the March 19 meeting will be too soon for a hike, but the press conference will be key to gauge how concerned the ECB is. There has been a parade of Governing Council members telling markets to "*stay calm*" and to not overreact. However, two of those central bankers did say that the time of talking about undershooting inflation is over. Cannot disagree there.

Then there is the **BoE**. Our Laurence Mutkin, Head of EMEA Rates Strategy, looks for a 7-2 vote for unchanged rates of 3.75% at the March MPC, wider than February's 5-4 vote. Before the conflict with Iran heated up, markets had been looking for another rate cut this year; but now, they may begin pricing in a 50-50 chance that 3.75% will be the trough of this Bank Rate cycle. Laurence is a big believer in the "mini-manifestos" published in the Minutes, as they are telling of which way each member is leaning, regardless of their vote. He expects Dave Ramsden and Sarah Breeden, the least dovish of the doves, to move from the "cut" camp, where they've been for the last three meetings, to the "hold" camp, as the latest DMP showed a pickup in expectations for employment, activity and prices. The events in the Middle East will add to these inflationary views. As for raising rates, it is too early to make that call.

It is, however, not too early to tighten further for the likes of the RBA and the BoJ. The **RBA** kicked off its rate hike cycle in February, lifting the cash rate 25 bps to 3.85%, a move accompanied by a hawkish Statement that mentioned how inflationary pressures had picked up "*materially*" and that "*the board judged that inflation is likely to remain above target for some time.*" That was on February 3. Since then, the jobless rate has held steady at 4.1%, inflation has moved away from the 2%-to-3% target (trimmed mean at 3.4%), and the economy grew 2.6% above year-ago levels in Q4, the fastest increase in nearly three years. And since the onset of the Middle East conflict, Governor Bullock called each meeting "*live*", while Deputy Governor Hauser warned that inflation would be "*higher than the projection we published in February*". We expect the RBA to raise rates another 25 bps to 4.1%, the first back-to-back rate hike in almost three years, with two more moves to follow.

Meanwhile, the **BoJ** has already tightened policy on four occasions since 2024, and we continue to expect two more rate hikes this year, the next move likely in April. Inflation had been cooling, but that improvement may come up against a wall in March given the run-up in energy costs. The government's subsidies for household electricity and gas—scheduled to begin in March—will help, but they may not be enough to cushion the blow.

Foreign Exchange Forecasts

(local currency per US\$: avg.)	Actual 2026 Feb	Forecasts 2026					2026		2027			
		Mar	Apr	May	Jun	Q3	Q4	Q1	Q2	Q3	Q4	
Canadian Dollar												
C\$ per US\$	1.36	1.36	1.36	1.36	1.35	1.35	1.34	1.33	1.32	1.31	1.30	
US\$ per C\$ ¹	0.733	0.734	0.736	0.738	0.740	0.743	0.748	0.753	0.758	0.763	0.768	
Trade-weighted	113.8	115.0	115.1	115.3	115.4	115.7	116.1	116.4	116.8	117.1	117.4	
U.S. Dollar												
Trade-weighted ²	117.9	119.7	119.5	119.2	118.9	118.4	117.6	116.9	116.1	115.4	114.6	
European Currencies												
Euro ¹	1.18	1.15	1.15	1.16	1.16	1.17	1.18	1.19	1.20	1.21	1.22	
Danish Krone	6.32	6.45	6.45	6.40	6.40	6.40	6.35	6.30	6.25	6.20	6.15	
Norwegian Krone	9.58	9.65	9.65	9.60	9.60	9.55	9.45	9.40	9.30	9.25	9.15	
Swedish Krona	8.99	9.25	9.25	9.25	9.20	9.20	9.15	9.05	9.00	8.90	8.85	
Swiss Franc	0.77	0.78	0.78	0.78	0.78	0.77	0.77	0.77	0.76	0.76	0.75	
U.K. Pound ¹	1.36	1.33	1.33	1.34	1.34	1.35	1.36	1.36	1.37	1.37	1.38	
Asian Currencies												
Chinese Yuan	6.91	6.88	6.87	6.86	6.85	6.84	6.81	6.79	6.78	6.77	6.75	
Japanese Yen	155	159	159	158	158	157	155	153	151	148	146	
Korean Won	1,447	1,485	1,485	1,480	1,480	1,480	1,480	1,475	1,470	1,470	1,465	
Indian Rupee	90.7	92.0	91.9	91.9	91.8	91.7	91.6	91.4	91.3	91.1	91.0	
Singapore Dollar	1.27	1.28	1.28	1.28	1.28	1.27	1.27	1.26	1.26	1.26	1.26	
Malaysian Ringgit	3.91	3.95	3.95	3.90	3.90	3.90	3.90	3.90	3.90	3.85	3.85	
Thai Baht	31.2	31.9	31.9	31.9	31.9	31.8	31.8	31.7	31.6	31.6	31.5	
Philippine Peso	58.2	59.2	59.2	59.1	59.1	59.0	58.9	58.8	58.7	58.6	58.5	
Taiwan Dollar	31.5	31.8	31.8	31.8	31.7	31.7	31.6	31.5	31.5	31.4	31.4	
Indonesian Rupiah	16,825	16,885	16,865	16,845	16,825	16,790	16,735	16,695	16,665	16,635	16,605	
Other Currencies												
Australian Dollar ¹	0.706	0.709	0.710	0.711	0.713	0.715	0.719	0.722	0.724	0.727	0.729	
New Zealand Dollar ¹	0.601	0.590	0.591	0.592	0.593	0.596	0.599	0.603	0.606	0.610	0.614	
Mexican Peso	17.23	17.75	17.70	17.65	17.60	17.45	17.30	17.15	16.95	16.75	16.55	
Brazilian Real	5.20	5.20	5.20	5.15	5.15	5.10	5.00	5.00	4.95	4.90	4.85	
South African Rand	16.0	16.6	16.6	16.5	16.5	16.4	16.3	16.2	16.0	15.9	15.8	
Cross Rates												
Versus Canadian Dollar												
Euro (C\$/€)	1.61	1.57	1.57	1.57	1.57	1.57	1.57	1.58	1.58	1.58	1.59	
U.K. Pound (C\$/£)	1.85	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.80	1.80	
Japanese Yen (¥/C\$)	114	117	117	117	117	117	116	116	114	113	112	
Australian Dollar (C\$/A\$)	0.96	0.97	0.96	0.96	0.96	0.96	0.96	0.96	0.96	0.95	0.95	
Versus Euro												
U.K. Pound (£/€)	0.87	0.86	0.86	0.87	0.87	0.87	0.87	0.87	0.87	0.88	0.88	
Japanese Yen (¥/€)	183	183	183	183	183	183	183	182	180	179	177	

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

Sources: BMO Economics, Haver Analytics

Interest Rate Forecasts

(% : avg.)	Actual 2026 Feb	Forecasts 2026					2026		2027			
		Mar	Apr	May	Jun	Q3	Q4	Q1	Q2	Q3	Q4	
Canada												
Overnight target (period end)	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	
Overnight target	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	
CORRA ²	2.27	2.26	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	
3-month bills	2.18	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	
6-month	2.23	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	
1-year	2.31	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	
2-year bonds	2.49	2.65	2.65	2.65	2.60	2.60	2.50	2.50	2.50	2.50	2.50	
3-year	2.42	2.75	2.75	2.70	2.70	2.70	2.70	2.70	2.70	2.75	2.75	
5-year	2.82	3.00	2.95	2.95	2.95	2.95	2.90	2.90	2.95	2.95	3.00	
7-year	2.96	3.20	3.20	3.15	3.15	3.15	3.10	3.10	3.15	3.20	3.25	
10-year	3.29	3.45	3.40	3.40	3.40	3.35	3.30	3.35	3.40	3.45	3.50	
30-year	3.76	3.90	3.85	3.85	3.85	3.80	3.75	3.80	3.85	3.90	3.95	
Prime rate	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	
United States												
Fed funds target (period end)	3.63	3.63	3.63	3.63	3.63	3.38	3.13	3.13	3.13	3.13	3.13	
Fed funds target	3.63	3.63	3.63	3.63	3.63	3.59	3.32	3.13	3.13	3.13	3.13	
EFFR ³	3.64	3.64	3.64	3.64	3.64	3.60	3.32	3.13	3.13	3.13	3.13	
SOFR ⁴	3.67	3.68	3.70	3.70	3.70	3.66	3.34	3.12	3.12	3.12	3.12	
3-month bills	3.69	3.70	3.70	3.70	3.60	3.35	3.05	2.80	2.80	2.80	2.80	
6-month	3.60	3.70	3.70	3.70	3.55	3.35	3.10	2.90	2.90	2.90	2.90	
1-year	3.48	3.60	3.55	3.55	3.45	3.35	3.15	3.00	3.05	3.05	3.05	
2-year notes	3.47	3.60	3.55	3.50	3.45	3.35	3.20	3.15	3.20	3.20	3.25	
3-year	3.52	3.60	3.60	3.55	3.50	3.45	3.35	3.35	3.40	3.45	3.45	
5-year	3.68	3.75	3.75	3.70	3.70	3.65	3.60	3.60	3.60	3.65	3.70	
7-year	3.89	3.95	3.95	3.90	3.90	3.85	3.80	3.80	3.85	3.90	3.90	
10-year	4.13	4.20	4.15	4.15	4.10	4.10	4.00	4.05	4.05	4.10	4.15	
30-year bonds	4.76	4.80	4.80	4.80	4.75	4.70	4.65	4.65	4.70	4.75	4.80	
Prime rate	6.75	6.75	6.75	6.75	6.75	6.71	6.44	6.25	6.25	6.25	6.25	
Other G7												
ECB Deposit Rate ¹	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	
10yr Bund	2.77	2.75	2.75	2.75	2.75	2.75	2.70	2.70	2.75	2.75	2.80	
BoE Bank Rate ¹	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	
SONIA ⁵	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	
10yr Gilt	4.43	4.40	4.40	4.40	4.40	4.35	4.30	4.30	4.35	4.35	4.40	
BoJ O/N ¹	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	
10yr JGB	2.18	2.20	2.21	2.22	2.23	2.25	2.29	2.32	2.34	2.37	2.39	

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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