Rates Scenario for June 18, 2026

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Forecast Summary

(avg.)	Actual	Forecasts									
	2026	2026					2026	2027			
	May	Jun	Jul	Aug	Sep	Oct	Q4	Q1	Q2	Q3	Q4
BoC overnight[1]	2.25	2.25[2]	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
10-yr Canadas	3.54	3.45	3.45	3.45	3.50	3.50	3.50	3.45	3.45	3.45	3.50
Fed funds[1]	3.63	3.63[2]	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.38	3.13
10-yr Treasuries	4.48	4.50	4.50	4.50	4.50	4.45	4.45	4.40	4.35	4.25	4.25
C$ per US$	1.37	1.40	1.39	1.38	1.37	1.37	1.36	1.34	1.33	1.32	1.30
US$/€	1.17	1.15	1.15	1.15	1.16	1.16	1.16	1.16	1.17	1.17	1.18
US$/£	1.35	1.33	1.33	1.34	1.34	1.34	1.35	1.35	1.36	1.36	1.37
¥/US$	158	160	159	159	158	157	157	155	154	153	152

[1] end of period; [2] actual value

Sources: BMO Economics, Haver Analytics

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Canada-U.S. Rates

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Ch-Ch-Ch-Ch-Changes

One 'Ch' for each new Fed task force being established under new Fed Chair Warsh.

Changes are coming to the Fed's conduct of monetary policy. Some have already arrived, such as crafting terser policy statements. Others seem to have their days numbered, such as the 'dot plot'. Most changes, however, are pending the results of the five task forces established under Chair Warsh. They are looking into (1) Fed communications; (2) the Fed's balance sheet policy; (3) reliance on existing data sources; (4) productivity and jobs; and (5) the Fed's inflation frameworks. In the press conference, Warsh said: *"My expectation is the task forces will begin work in the next couple of weeks, and we'll start to get some more information from them, some more framing of how they see things, starting in the fall, and hopefully most, if not all of them, concluding by year end."*

In the meantime, the current conduct of monetary policy continues, although **the bar to change rates in either direction could be (at least) a little higher now**. We reckon the Fed will not hesitate to act if the data are sufficiently compelling. But short of that criterion, we judge the Fed will move extra cautiously with potentially profound changes to policy conduct coming. Besides, the Committee seems to be very divided about what to do next.

In what could be the last **dot plot**, among the 18 participants pencilling in their fed funds projections for the end of this year and next (Chair Warsh did not), the picture was essentially split down the middle. For 2026, nine were in the hike clique and eight were in the pause camp (one had a cut). For 2027, there were eight in each of the hike and cut camps (two were still holding). The median projection portrays no net change in policy rates over the next 18 months.

For the record, **the FOMC left policy rates unchanged on June 17**, with the target range for fed funds at 3.50%-to-3.75%. This marked the fourth consecutive pause, and it was supported unanimously. The market interpreted the day's developments in a hawkish light, now pricing in about 40 bps worth of tightening by the end of this year and a peak near 50 bps by next spring (roughly double what was before).

We still see the midpoint of the target range down 50 bps to 3.125% over time so that it aligns with the FOMC's median projection of the neutral range. In the latest dot plot, 10 participants pegged neutral in the 3.00%-to-3.25% range with two below and four above. We have pencilled in quarter-point rate cuts for September and December of next year, nine months later than in our previous Rates Scenario. The expected year-long run of stable rates should see the task forces delivering on their remits, the conduct of monetary policy continuing to change, and the growth and inflation data becoming more conducive to Fed easing.

Bank of Canada: As expected, **the BoC kept the policy rate unchanged on June 10**, with the target for the overnight rate at 2.25%, for the fifth consecutive announcement. Somewhat unexpectedly, though, some of the hawkish-leaning rhetoric from the last meeting persisted. This could have been dialled back a bit given the tone of the growth and inflation data since the April 29 meeting.

For example, real GDP contracted ever so slightly in Q1 (-0.1% annualized), marking the second consecutive negative print and the third in the past four quarters, with the yearly change also at -0.1%. This led some to mutter the 'r' word (recession). However, the flash figure for April was a solid 0.4% m/m. And although employment jumped a strong 87.8k in May, this still left a 24.5k net job loss since the start of the year. Meanwhile, the CPI-trim and CPI-median inflation rates were 2.0% y/y and 2.1% y/y in April, respectively, with the shorter-term trends and other core metrics mostly running much slower.

The above data were acknowledged, along with the view that: (1) *"there has been limited evidence of broad-based pass-through of higher energy prices to other consumer prices,"* and (2) *"the economy is expected to remain in excess supply"* even after an anticipated rebound in Q2. Despite these developments, the Bank repeated that it *"will not let higher energy prices become persistent inflation"* and *"as the outlook evolves, we stand ready to respond as needed."*

In the **press conference**, Governor Macklem also reiterated what a response could look like. *"We may need to cut the policy rate further"* if U.S. trade policy turns even more negative for Canada. Or *"there may be a need for consecutive increases in the policy rate"* if high energy prices begin fuelling persistent generalized inflation. Back in April, it was this asymmetrical policy response that initially spooked the market (but it merely reflected the fact the Bank was already at the bottom of the 2.25%-to-3.25% neutral range). On balance, we judge the Bank could be on hold deep into next year.

Bond yields: Ten-year Treasury yields closed at 4.67% on May 19, the highest level since mid-January 2025, when the market was most worried about the inflation and budget deficit consequences of the incoming Trump Administration's policies. Just before the Iran war began on February 28, yields had closed at 3.97% (in a rare sub-4.00% print). The 70 bp selloff mostly reflected higher inflation expectations and risks, fuelled by higher oil prices. It also reflected a less constructive (and riskier) expected profile for Fed policy rates. Since mid-May, yields have drifted down into the 4.40%-to-4.50% range, amid the news of a U.S.-Iran deal and the lowest oil prices in 15 weeks. The latest Fed developments applied some temporary upward pressure. Meanwhile, deteriorating fiscal fundamentals, partly due to tariff repayments and Iran war financing, are applying more persistent upward pressure.

Looking ahead, yields should remain mostly range-bound until the U.S.-Iran deal is finalized and shown to be effective, and until we get more clarity on how Fed policy rate prospects will be impacted by the results of the Fed's task forces. Once rate cuts are in the air again, we reckon yields will drift down further to average around 4¼%.

Elsewhere, 10-year Canada-U.S. bond yield spreads have moved more negative, trading past -100 bps, as U.S. yields slipped from their mid-May peak. Investors appear to be paying increased attention to Canada's superior core inflation performance along with a fiscal outlook that is not deteriorating as badly as south of the border. However, we do expect spreads to start grinding less negative again, particularly as next year's Fed rate cuts come into focus with the BoC standing pat. The trend 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 is, except for the oil-producing provinces, for the time being).

U.S. dollar: The greenback has been oscillating, along with geopolitical and global economic risks in the wake of the Iran war (the more the perceived risks, the more the big dollar benefits from its safe-haven role). Also, the gains and losses have mirrored the undulating prospects for Fed net tightening or net easing. According to the Wall Street Journal's index, after bottoming at post-war lows on May 8, the currency has rebounded by 2.2% and continues to increase as the latest Fed news (interpreted in a hawkish light) has trumped that of a U.S.-Iran deal. Meanwhile, there is talk of a 'U.S. exceptionalism' trade as investors take advantage of America's AI boom.

The greenback is likely to continue making modest net gains until potential Fed rate cuts are back on the market's mind, or more global central banks join the policy tightening parade. Or, once investors start becoming less optimistic about the AI narrative, specifically, or U.S. economic and fiscal prospects, generally.

Canadian dollar: The loonie is languishing. Since hitting a recent strong point on May 1 (C$1.3576 or US$0.7366) in the wake of a (surprisingly) hawkish-sounding Bank of Canada on April 29, the currency has been steadily drifting weaker. It is currently trading above $1.413 (below US$0.708). During the past 6½ weeks, the Canadian data flow has emphasized weak growth (the last jobs number aside) and benign core inflation, essentially opposite to what the U.S. data has been printing. The latter was already starting to stoke Fed tightening expectations, fuelled further by this week's announcement, as BoC tightening expectations were fading. Meanwhile, the July 1 date for the decision on the USMCA review (extend for 16 years, start an annual review process, or tear up with six months' notice) seems to be also weighing on the loonie.

Once past July 1 (we expect the annual review outcome), the currency's fortunes could turn a bit. But it will be the mix of firmer Canadian data and softer U.S. data and, ultimately, Fed rate cuts being back on the market's mind to provide lasting support for the Canadian dollar.

Overseas

Jennifer Lee, Senior Economist

There's a time and a place for forward guidance..... this may not be that time. Or that place. The world was thrown into a great deal of uncertainty for nearly four months. The closure of the Strait of Hormuz sent prices for oil, LNG, fertilizer, and helium sharply higher, and that's also having spillover effects, pushing up costs for food, or packaging, or transportation, for example. With the deal signed and as the chokepoint re-opens, there should be immediate relief on oil prices; but, it will take time to return to normalcy. The peace agreement announced on President Trump's 80th birthday (June 14) has already sent WTI and Brent down to around $75 and $78, respectively, though that is still above where they were trading before the war broke out. We now enter the 60-day negotiating period, but there is nervousness about whether this agreement will hold up.

This is when the **ECB**'s "*data-dependent, meeting-by-meeting*" and "*not on a pre-set course*" mantra makes sense. After the fully-expected 25 bp rate hike to 2.25% on June 11, President Lagarde left the door wide open for another rate hike, maybe not in July (unless core inflation unexpectedly takes off or if Brent hits $100/bbl) but September is quite possible given the ECB Staff's economic projections. That is still three months away; and if the market settles down, it is also quite possible that this will be a one-and-done situation.

The ECB may be the only major central bank joining the FOMC on the step away from forward guidance although the various Governing Council members are still openly hawkish. The **Norges Bank** continued to warn that it will "*likely be necessary*" to raise rates further, the **Riksbank** said that the "*probability*" of more hikes has increased. The **SNB** may be dovish but given the strong CHF, declared that it had an "*increased willingness to intervene*" in the FX market.

The **BoJ** finally resumed normalizing policy, raising the overnight call rate 25 bps to a 31-year high of "*around 1.00%*" in June. The slow, albeit steady, process started in March 2024 when it said sayonara to ZIRP. Since then, rates were

lifted 5x, or a total of 110 bps, over a two-year span. The Bank would have tightened sooner in early 2026 but it was interrupted by PM Takaishi's landslide election and then the war in Iran. Now, with the peace deal, real cash earnings up for four consecutive months, core CPI still near 2% and a weak JPY, all but one Board member approved the latest hike. In addition, the BoJ plans to reduce its monthly JGB purchases over the next nine months, from about ¥2.7 trln/mth in the current quarter, to about ¥2 trln/mth in April 2027. This was not a surprise, nor was the qualifying comment that if there is a "*rapid rise in long-term interest rates*", the BoJ will be "*nimble*" and adjust its stance, perhaps by buying more JGBs. The BoJ does not want to be seen as 'falling behind the curve' but at the same time, wants to ensure the bond market is stable. Perhaps this is why the JPY failed to rally on the news. We still expect a follow-up rate hike in September to 1.25%, with a risk of an earlier move.

As expected, the **RBA** took a break (must be exhausting to hike three meetings in a row in this environment) at the June policy meeting, unanimously deciding to keep the cash rate at a near-two-year high of 4.35%, after raising it in February, March and May. Recall what Governor Bullock said back in May… those hikes gave the RBA "*space now to sit and see what happens*". Well, that is clearly what it did, but it is not going to sit on its laurels. In the Media Release, it warned of *"signs"* of inflation pass-through, layered on top of "*high inflation recorded around the start of 2026*", so one cannot simply point to the Strait's closure (though it is re-opening). The current policy stance is "*well placed to respond to developments*", but the Board will do what is "*necessary*" to achieve its mandate of price stability and full employment, "*including increasing the cash rate target further if required*". Meantime, it will observe the current economic landscape. We still look for a 25 bp hike in August (to 4.60%), given that the trimmed mean CPI is parked at a 6-year high of 3.4%. But, if things cool off quickly, the RBA's hawkish tune can change.

Finally, the **BoE** remained on the sidelines at the June meeting, but the 7-to-2 vote, along with the individual MPC comments, gave it a hawkish lean. First, the uber-hawkish Huw Pill now has company in the rate hike camp, as he was joined by Megan Greene in the vote for a 25 bp hike. Second, **Governor Bailey** did not throw cold water on rate hike expectations, as he has done previously. Instead, he said that he "*accept*(s) *risks are to the upside*" and that he would "*respond promptly*" if there were any signs of stronger possible second-round effects. He also cautioned the public that, even with the peace deal, higher prices will be part of the economy. "*Whatever happens in the future, the higher energy prices of the past four months mean there's already some inflationary pressure in the pipeline.*" We continue to expect the Bank to remain on the sidelines this year, as the economy and the labour market struggles with these price pressures. Our **Laurence Mutkin, Director & Head, EMEA Rates Strategy**, is struck by the weakness of the MPC's commitment to price stability, compared to Fed Chair Warsh's tone. He also warned that political policy uncertainty will dominate British markets in the near-term.

On the FX front, the **greenback** has held up well against all of these headwinds. The U.S. economy's overall resilience was a big factor and, now, the currency is getting support in the form of a more hawkish sounding FOMC. The fact that the JPY hasn't been able to rally is a testament to the strength of the greenback. In the medium-to-longer term, we look for the majors to regain their composure, but at a modest pace. The CNY, however, should continue to strengthen given its $1 trln goods trade surplus (even with all of the tariffs), and as the government starts to limit the amount its citizens can invest overseas. Plus, Chancellor Merz' accusation that the currency was undervalued by 20%-to-30% will put some upward pressure on it.

Foreign Exchange Forecasts

(local currency per US$: avg.)	Actual 2026 May	Forecasts 2026 Jun	Jul	Aug	Sep	Oct	2026 Q4	2027 Q1	Q2	Q3	Q4
Canadian Dollar											
C$ per US$	1.37	1.40	1.39	1.38	1.37	1.37	1.36	1.34	1.33	1.32	1.30
US$ per C$[1]	0.729	0.717	0.721	0.725	0.729	0.733	0.737	0.745	0.752	0.759	0.767
Trade-weighted	113.5	112.1	112.6	113.0	113.5	114.0	114.5	115.6	116.5	117.3	118.2
U.S. Dollar											
Trade-weighted[2]	118.8	119.9	119.6	119.3	119.0	118.7	118.4	117.8	117.2	116.7	116.2
European Currencies											
Euro[1]	1.17	1.15	1.15	1.15	1.16	1.16	1.16	1.16	1.17	1.17	1.18
Danish Krone	6.40	6.50	6.45	6.45	6.45	6.45	6.45	6.45	6.40	6.35	6.35
Norwegian Krone	9.25	9.55	9.55	9.55	9.60	9.60	9.60	9.60	9.55	9.50	9.45
Swedish Krona	9.30	9.50	9.50	9.45	9.45	9.45	9.45	9.40	9.40	9.35	9.30
Swiss Franc	0.78	0.80	0.80	0.79	0.79	0.79	0.78	0.78	0.77	0.77	0.76
U.K. Pound[1]	1.35	1.33	1.33	1.34	1.34	1.34	1.35	1.35	1.36	1.36	1.37
Asian Currencies											
Chinese Yuan	6.80	6.77	6.77	6.76	6.76	6.76	6.75	6.75	6.74	6.73	6.72
Japanese Yen	158	160	159	159	158	157	157	155	154	153	152
Korean Won	1,488	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,525	1,525	1,525
Indian Rupee	95.5	94.9	94.7	94.6	94.4	94.3	94.1	93.9	93.8	93.7	93.6
Singapore Dollar	1.27	1.29	1.29	1.29	1.29	1.29	1.29	1.28	1.28	1.28	1.28
Malaysian Ringgit	3.95	4.05	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Thai Baht	32.5	32.8	32.7	32.7	32.7	32.7	32.6	32.6	32.6	32.5	32.5
Philippine Peso	61.3	61.0	60.8	60.7	60.6	60.5	60.4	60.2	60.1	60.1	60.0
Taiwan Dollar	31.5	31.6	31.5	31.5	31.5	31.5	31.5	31.4	31.4	31.4	31.3
Indonesian Rupiah	17,576	17,815	17,785	17,760	17,730	17,700	17,670	17,630	17,610	17,590	17,570
Other Currencies											
Australian Dollar[1]	0.719	0.705	0.708	0.710	0.713	0.715	0.718	0.722	0.724	0.727	0.729
New Zealand Dollar[1]	0.591	0.581	0.583	0.584	0.586	0.587	0.589	0.592	0.594	0.597	0.599
Mexican Peso	17.31	17.35	17.30	17.25	17.20	17.10	17.05	16.90	16.80	16.65	16.55
Brazilian Real	4.98	5.15	5.10	5.00	4.95	4.90	4.85	4.80	4.75	4.75	4.70
South African Rand	16.5	16.4	16.4	16.4	16.3	16.3	16.3	16.2	16.0	15.9	15.8
Cross Rates											
Versus Canadian Dollar											
Euro (C$/€)	1.60	1.60	1.60	1.59	1.59	1.58	1.57	1.56	1.55	1.54	1.54
U.K. Pound (C$/£)	1.85	1.86	1.85	1.84	1.84	1.83	1.83	1.82	1.81	1.80	1.78
Japanese Yen (¥/C$)	115	115	115	115	115	115	115	116	116	116	117
Australian Dollar (C$/A$)	0.99	0.98	0.98	0.98	0.98	0.98	0.97	0.97	0.96	0.96	0.95
Versus Euro											
U.K. Pound (£/€)	0.87	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86
Japanese Yen (¥/€)	185	184	183	183	182	182	181	181	180	180	179

[1] (US$ per local currency); [2] Federal Reserve Broad Index
Sources: BMO Economics, Haver Analytics

Interest Rate Forecasts

(% : avg.)	Actual	Forecasts									
	2026	2026					2026	2027			
	May	Jun	Jul	Aug	Sep	Oct	Q4	Q1	Q2	Q3	Q4
Canada											
Overnight target (period end)	2.25	2.25[6]	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Overnight target	2.25	2.25[6]	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
CORRA[2]	2.26	2.27	2.27	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
3-month bills	2.29	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
6-month	2.40	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35
1-year	2.64	2.60	2.55	2.55	2.50	2.45	2.45	2.40	2.40	2.40	2.40
2-year bonds	2.93	2.80	2.75	2.70	2.65	2.60	2.55	2.50	2.50	2.50	2.50
3-year	3.01	2.90	2.90	2.85	2.85	2.80	2.75	2.75	2.75	2.75	2.75
5-year	3.19	3.10	3.05	3.05	3.05	3.00	3.00	3.00	3.00	3.00	3.00
7-year	3.34	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
10-year	3.54	3.45	3.45	3.45	3.50	3.50	3.50	3.45	3.45	3.45	3.50
30-year	3.90	3.80	3.80	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Prime rate	4.45	4.45[6]	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[6]	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.38	3.13
Fed funds target	3.63	3.63[6]	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.60	3.33
EFFR[3]	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.61	3.34
SOFR[4]	3.58	3.63	3.62	3.62	3.62	3.62	3.62	3.62	3.62	3.60	3.33
3-month bills	3.69	3.80	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.80	3.45
6-month	3.77	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.50
1-year	3.79	3.85	3.85	3.90	3.90	3.85	3.85	3.80	3.70	3.65	3.40
2-year notes	4.00	4.10	4.10	4.10	4.10	4.00	3.95	3.80	3.60	3.45	3.30
3-year	4.04	4.15	4.15	4.15	4.15	4.10	4.05	3.90	3.75	3.65	3.55
5-year	4.15	4.20	4.20	4.20	4.20	4.15	4.15	4.05	3.95	3.85	3.75
7-year	4.31	4.35	4.35	4.35	4.35	4.30	4.30	4.20	4.15	4.05	4.00
10-year	4.48	4.50	4.50	4.50	4.50	4.45	4.45	4.40	4.35	4.25	4.25
30-year bonds	5.03	5.00	5.00	5.00	5.00	4.95	4.95	4.90	4.85	4.75	4.75
Prime rate	6.75	6.75[6]	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.73	6.46
Other G7											
ECB Deposit Rate[1]	2.00	2.25[6]	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50
10yr Bund	3.05	3.00	3.05	3.15	3.20	3.30	3.35	3.35	3.20	3.05	2.95
BoE Bank Rate[1]	3.75	3.75[6]	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	4.97	4.90	4.95	5.00	5.00	5.05	5.10	5.05	4.90	4.75	4.65
BoJ O/N[1]	0.75	1.00[6]	1.00	1.00	1.25	1.25	1.25	1.50	1.50	1.75	1.75
10yr JGB	2.63	2.65	2.64	2.63	2.63	2.62	2.61	2.58	2.56	2.53	2.51

[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; [6] actual value

Sources: BMO Economics, Haver Analytics

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