Rates Scenario for September 18, 2026

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Forecast Summary

(avg.)	Actual	Forecasts								
	2026	2026			2027			2027		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	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	3.68	3.85	3.90	3.90	3.95	3.95	3.95	3.95	3.90	3.85	3.80
Fed funds[1]	3.63	3.88	3.88	3.88	4.13	4.13	4.13	4.13	4.13	4.13	4.13
10-yr Treasuries	4.68	4.90	4.95	4.95	5.00	5.00	5.00	5.00	4.90	4.80	4.65
C$ per US$	1.39	1.39	1.39	1.38	1.38	1.38	1.38	1.37	1.37	1.36	1.35
US$/€	1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.17	1.17	1.18
US$/£	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.36	1.36
¥/US$	159	156	157	157	158	158	158	157	157	156	155

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

Sources: BMO Economics, Haver Analytics

ECONOMIC RESEARCH
economics.bmo.com

Michael Gregory, CFA, Managing Director, Deputy Chief Economist
michael.gregory@bmo.com

Jennifer Lee, Managing Director, Senior Economist
jennifer.lee@bmo.com

Canada-U.S. Rates

Michael Gregory, CFA, Deputy Chief Economist

Fed Policy: Timelier Disinflation Wanted

The new 'old' tagline for policy rates is ‘higher for longer’. On September 16, **the FOMC raised them by 25 bps**, with the fed funds target range at 3.75%-to-4.00%, which was expected. This was the first hike since July 2023. And the decision was **unanimous** among the dozen voters, which was unanticipated. We were expecting to see at least one dissent in favour of keeping policy rates unchanged. Unanimity reveals, once again (recall 2022), that when inflation is deemed the ‘enemy at the gate’, policymakers, whether considered hawks or doves, rally around the price stability flag. The policy statement ended with: “*Today’s policy action will support a timelier return to the Committee’s 2 percent goal. The Committee will deliver price stability.*”

And to deliver it, the Committee’s consensus was that higher policy rates are required now, and that they should remain at higher levels for longer, compared to the consensus three months ago and according to the ‘**dot plot**’. Interestingly, there was no drop-off in dot plot participation (which was a bit surprising). Chair Warsh was again the sole non-participant, but his repeat performance failed to influence others. (One wonders what that may mean about his ability to influence other Fed matters.)

The **median projection** for the fed funds rate showed another 25 bp rate hike by the end of this year, a view shared by 12 of 18 participants. Two were content with ‘one and done’ while four called for another 50 bps of tightening before year-end. The median forecast showed no move next year and quarter point cuts in each of the following two years. Compared to the previous dot plot, by 2028, rates are 50 bps above where they were before. Not only is this higher for longer, but there was also a pinch of higher forever. The median call for the longer-run or ‘neutral’ level was still in the 3.00%-to-3.25% range, but it rose from near the bottom (3.0625%) to the top (3.25%).

Elsewhere in the Summary of Economic Projections, the other median forecasts showed multiyear themes of slightly stronger real GDP growth, slightly faster total and core PCE inflation, and slightly lower jobless rates, compared to the previous SEP. These changes were consistent with the shift in Fed policy.

In the **press conference**, Warsh was asked what had changed since the July 29 confab, when the hold-versus-hike vote was 9-to-3. What triggered the nine (including Warsh) to flip? Warsh said over the interim seven weeks, the "*economy has strengthened*", the inflation trends "*weren't passing the test*", and geopolitics (read: oil prices) hadn't improved. Essentially, already sticky inflation was risking getting stickier.

Last month, at the Jackson Hole Symposium, Chair Warsh stated his standard: "*We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do.*" Policymakers clearly lacked that confidence this week and the consequent "*work*" has begun.

Through this year and next, **our Fed call is the same as the FOMC median** (another 25 bps for a total of 50 bps this year and nada next year). However, we expect the 2.0% inflation goal for both the total and core PCE price indexes to be achieved as 2028 unfolds. In turn, for that year, we forecast fed funds returning to the neutral range and a total of 100 bps of Fed easing. But that's two years from now, and a lot can happen between now and then.

Bank of Canada: On September 2, the Bank left policy rates unchanged, with the overnight rate target at 2.25%, for the seventh consecutive meeting. The statement acknowledged that *"the upside risks to inflation have increased, while new tariffs make growth prospects more uncertain."* At first glance this appeared to be a balanced assessment, but in Governor Macklem's press conference there appeared to be more weight being placed on the inflation side of the scale.

First, with respect to the growth uncertainties, Macklem said new U.S. tariffs *"will hit targeted sectors hard"* but they should have no *"large direct impact"* on the overall economy, partly owing to Ottawa's new support programs. He added that increased U.S. trade uncertainty could cause businesses to further *"delay investment and hiring decisions"*. But with respect to the inflation risks, the Governor said: *"The longer oil prices and refinery margins stay high, the greater the risk that higher energy prices spill over and turn into persistent inflation."* He added that *"new US tariffs and the Canadian counter-tariffs could add costs for some businesses and feed into consumer prices over time"*.

Subsequent to the meeting, the CPI report for August showed slightly less encouraging results. While the yearly changes for the trim (mean) and median metrics averaged 2.0% (bang on the target), the latest three-month interval showed quicker clips for all the core measures. Although it was not enough to ring any alarm bells, with counter-tariffs starting in September and oil prices back on the rise during the month, it's something to pay close attention to.

Our base case continues to be no rate hikes this year or next, but we judge there's a rising net risk of them happening. The market is pricing a quarter-point hike by December and another 75 bps of tightening by mid-next year. Longer term, we judge the Bank will want to lift the policy rate closer to the middle of the 2.25%-to-3.25% neutral range (a normalization process), and we've penciled this in as a 2028 story, but it could occur much sooner.

Bond yields: On September 15, 10-year Treasury yields closed at or above 5.00% for the first time since July 2007... before the Global Financial Crisis and Great Recession... before Fed quantitative easing was a twinkle in Chair Bernanke's eyes. Around the world, stubbornly high oil prices are greasing a mix of rising inflation expectations and risks, along with central bank tightening expectations and risks. The expectations and risks combo for U.S. inflation is being pumped further by tariffs and the AI spending boom, with uncertainty over alterations to the conduct of monetary policy (think: Warsh's five new task forces) augmenting Fed risks.

Meanwhile, and again around the world, deteriorating fiscal positions are also prodding higher bond yields. With 10-year Treasury yields the global benchmark, America's unsustainable paths for deficits, debt, and interest payments are weighing particularly heavily on U.S. and global bond prices. And apart from its inflation implications, the AI spending boom is also adding to the upward pressure on Treasury yields owing to the buildout's massive debt financing and its positive implications for longer-run nominal GDP growth.

Daily closes of 5%-plus should become more frequent during the weeks ahead, with the monthly average (our forecasting standard) finally hitting the mark by year end (also for the first time since July 2007). Next year, with a couple of Fed rate hikes under the belt, Warsh's five task forces releasing their reports, the AI spending boom cooling (but still growing strongly), and oil prices finally calming, we reckon yields could start trending down. By the time the Fed is back at neutral (later in 2028), 10-year yields should be back around 4.25%.

Meanwhile, 10-year Canada yields are dealing with their own mix of inflation (short-term core metrics a bit sticky), Bank of Canada (market pricing 115 bps of tightening in the year ahead), and fiscal concerns (increasing deficits among many jurisdictions). However, Canada-U.S. yield spreads have managed to move more negative amid the shift in Fed policy, from around -100 bps to about -110 bps. We reckon the current ranges should hold past the turn of the year, if not move even more negative. Ultimately, spreads should move less negative as central bank normalization efforts unfold.

U.S. dollar: According to the Wall Street Journal Dollar Index, the greenback has been bouncing around a mild appreciating trend since June 2025 (which at the time was a three-year low). By August 2026 (after 14 months), it had gained a net 0.8%... that's what you call mild if not essentially sideways. The currency tends to strengthen in tandem with increasing geopolitical and global economic risks along with increasing Fed tightening odds (and weaken when the opposites occur). But when the risk and odds are not directionally consistent it becomes a tug-of-war, with the outcome complicated further by what the other major global central banks are up to. This is all to say that with the Fed shifting into a tightening gear and the Iran war not improving with the conflict spreading to Red Sea shipping lanes, the big dollar has started making some net gains again (at least on a daily basis), which should continue in the weeks ahead.

Canadian dollar: The greenback's gain is the loonie's pain. After closing below C$1.38 (above US$0.725) as recently as September 8, the Canadian dollar is around C$1.40 again (US$0.714). It doesn't help that there has been another round of tit-for-tat tariffs between the U.S. and Canada. Given where the currency has been before amid escalating Canada-U.S. trade tensions, one could argue that the loonie has been more restrained this time. Perhaps market speculation of Bank of Canada tightening is helping, as is this week's focus on increasing inward foreign investment (Canada Investment Summit) and new pro-investment tax changes (Productivity Mega Deduction). Canada being more open for business can counter it being partly closed to U.S. trade.

Overseas

Jennifer Lee, Senior Economist

"*Tell me again about how monetary policy became more hawkish in 2026, Grandpa!*"

The tale that will be told for generations to come is how monetary policy took a decidedly hawkish turn this year, and notably so in September, highlighted by the Fed's rate hike on the 16th, the first under Chair Warsh. But we need to remember that some central banks had been on that road for some time already and may be looking to slow things down.

Take the **BoJ**. It beat everyone to the punch when it ended its NIRP in March 2024, raising rates for the first time in 17 years. It was long overdue as inflation had been running above target for over two years. The tightening continued, slowly but steadily; then, the Bank took to the sidelines in early 2026, as it waited to see what would happen following PM Takaichi's landslide election victory and as the war in Iran began. Rate hikes resumed in June, and again on September 18, leaving rates at 31-year highs of 1.25%. But it was not a hawkish hike. In fact, there were two Board members (Akada, Sato) who voted to stay the course, citing inflation (it has been close to target recently) and economic growth (not exactly strong, in their view). Those two dissenters were nominated by PM Takaichi (and her views on BoJ hikes are well known); meantime, two hawks (Tamura, Takata), will be leaving the Board in July 2027. Hence, the JPY tumbled immediately. Although the Statement said "*the Bank will continue to raise the policy rate and adjust the degree of accommodation*"; and Governor Ueda's comments during the Press Briefing also showed that he looks for further tightening, the degree and speed are unclear. He did not have a "*specific pace in mind for rate hikes*" and he "*cannot commit to consecutive rate hikes in advance*". Meantime, **we expect the BoJ to pause in October,**

then follow up with one more hike in December. The JPY, however, will not rally as much as anticipated, given the lack of urgency felt by the BoJ.

The **RBA** was a recent convert, raising rates three times in succession, starting in February 2026, then March, then May. It stepped to the side in June and August, opting to observe the impact of those rate hikes. In Governor Bullock's words, "*the full effects of earlier hikes will take time to emerge*". But the central bank is clearly not finished (inflation is still "*too high*") and warned that more hikes are possible. What will stop it from hiking further? It wants to see more progress on the inflation front, enough to allow the Board to be "*confident that we are going to get inflation back to target with current monetary policy settings*". The latest figures for July showed some progress on the headline, but the trimmed mean was stuck at a troubling 1½-year high of 3.6%. As Deputy Governor Hauser asked last week: "*Have we done enough or is more needed?*" Methinks more is needed, likely in **November**.

The **ECB** met market expectations and followed through with its second rate hike this cycle, first in June and then again in September, lifting the deposit rate to an 18-month high of 2.50%. Although the press conference and press release were not full-on hawkish, it was the ECB staff forecasts that gave it away. Upward revisions were made to real GDP growth (citing "*greater-than-expected resilience*"), and to inflation for 2027 and 2028. Underlying inflation estimates were bumped up too, to above the 2% target in both years and that, alone, suggests that there will be spillover effects beyond energy and food. And, President Lagarde (who announced she will leave her post in 2027) admitted that "*inflation will be longer lasting than we had anticipated*." Although she called the decision to hike a "*no brainer*" that was made unanimously, the Governing Council "*did not debate at all any kind of future rate path*" as the discussion was all on that day's decision. Perhaps, but others in the meeting heard otherwise. According to Reuters' usual sources, the ECB could discuss another hike as soon as the October 29 meeting, depending on the data and what is going on in Iran, of course. For now, **BMO looks for a December rate hike to 2.75%, but October is also possible**. Everything is data-dependent and will be made on a meeting-by-meeting basis. If oil prices remain stuck around $100, the ECB could amp up its aggressiveness. What a change from a few months ago, when markets questioned that June hike and wondered if policymakers jumped the gun as Brent peaked at around $90 on that very day before sliding to $70. No one is laughing now.

Earlier this summer, there was the **RBNZ** (July's 25 bp hike was the first since 2023). **Norges Bank** did so in May.

That leaves the **BoE** as the only hold-out in this group. The announcement on September 17 was two-fold: first, it plans to run down its stock of Gilts to zero over the next eight years; second, it kept Bank Rate at 3.75%. But, the Committee (on net) was more hawkish than the prior meeting. Again, the vote was 6-to-3 to hold, with the three hawks steadfastly calling for a rate hike at the meeting, as upside risks to inflation have grown and tightening now would avoid a worse outcome (borrowing words from Megan Greene). The other six voted to hold but four of those six were hawkish, with concerns that if the conflict in the Middle East persists and continues to put upward pressure on energy prices, then the risks of second-round effects will grow and that would require a rate hike. According to the Minutes to that meeting, all in, with the likely lags before the second-round effects show up, "*it was not appropriate to wait too long for evidence of such effects before responding with policy.*" In other words, November is live.

Foreign Exchange Forecasts

(local currency per US$: avg.)		Actual 2026 Aug	Forecasts 2026 Sep	Oct	Nov	Dec	2027 Jan	Feb	Mar	2027 Q2	Q3	Q4
Canadian Dollar												
C$ per US$		1.39	1.39	1.39	1.38	1.38	1.38	1.38	1.37	1.37	1.36	1.35
US$ per C$[1]		0.719	0.721	0.722	0.723	0.725	0.726	0.727	0.729	0.731	0.735	0.739
Trade-weighted		111.9	111.9	112.1	112.3	112.5	112.6	112.8	112.9	113.1	113.5	113.9
U.S. Dollar												
Trade-weighted[2]		118.9	118.5	118.5	118.5	118.4	118.3	118.1	118.0	117.6	117.2	116.7
European Currencies												
Euro[1]		1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.17	1.17	1.18
Danish Krone		6.45	6.45	6.45	6.45	6.45	6.45	6.45	6.45	6.40	6.40	6.35
Norwegian Krone		9.42	9.30	9.30	9.30	9.35	9.30	9.30	9.30	9.25	9.20	9.15
Swedish Krona		9.52	9.70	9.70	9.75	9.75	9.75	9.75	9.70	9.70	9.65	9.60
Swiss Franc		0.81	0.82	0.81	0.81	0.80	0.80	0.80	0.80	0.80	0.79	0.79
U.K. Pound[1]		1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.36	1.36
Asian Currencies												
Chinese Yuan		6.74	6.71	6.71	6.70	6.70	6.70	6.70	6.70	6.69	6.69	6.68
Japanese Yen		159	156	157	157	158	158	158	157	157	156	155
Korean Won		1,403	1,355	1,355	1,355	1,360	1,360	1,355	1,355	1,355	1,355	1,355
Indian Rupee		95.4	95.5	95.5	95.6	95.7	95.7	95.7	95.6	95.6	95.5	95.4
Singapore Dollar		1.28	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
Malaysian Ringgit		4.06	4.05	4.05	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.05
Thai Baht		33.0	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.1	33.1
Philippine Peso		61.5	62.7	62.7	62.7	62.7	62.6	62.6	62.6	62.6	62.5	62.5
Taiwan Dollar		32.0	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.7	31.7	31.7
Indonesian Rupiah		17,810	17,660	17,655	17,650	17,650	17,645	17,640	17,635	17,625	17,615	17,600
Other Currencies												
Australian Dollar[1]		0.710	0.715	0.712	0.708	0.705	0.706	0.708	0.709	0.711	0.715	0.719
New Zealand Dollar[1]		0.591	0.580	0.578	0.577	0.575	0.576	0.578	0.579	0.581	0.585	0.589
Mexican Peso		17.06	17.05	17.05	17.00	17.00	16.95	16.90	16.90	16.80	16.65	16.55
Brazilian Real		5.16	5.15	5.10	5.05	5.00	5.00	4.95	4.95	4.90	4.85	4.75
South African Rand		16.2	16.2	16.1	16.1	16.0	16.0	16.0	15.9	15.9	15.8	15.8
Cross Rates												
Versus Canadian Dollar												
Euro	(C$/€)	1.61	1.61	1.60	1.60	1.59	1.59	1.59	1.59	1.59	1.59	1.59
U.K. Pound	(C$/£)	1.88	1.88	1.87	1.87	1.86	1.86	1.86	1.86	1.85	1.85	1.84
Japanese Yen	(¥/C$)	114	112	113	114	114	115	115	115	115	115	115
Australian Dollar	(C$/A$)	0.99	0.99	0.99	0.98	0.97	0.97	0.97	0.97	0.97	0.97	0.97
Versus Euro												
U.K. Pound	(£/€)	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.86	0.87
Japanese Yen	(¥/€)	184	181	181	182	182	183	183	183	183	183	183

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

Interest Rate Forecasts

(% : avg.)	Actual	Forecasts									
	2026	2026				2027			2027		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	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]	2.27	2.29	2.27	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
3-month bills	2.28	2.30	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35
6-month	2.39	2.55	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
1-year	2.65	2.90	2.95	2.95	2.95	2.90	2.90	2.85	2.85	2.80	2.75
2-year bonds	2.96	3.25	3.25	3.25	3.25	3.20	3.20	3.15	3.10	3.05	2.95
3-year	3.05	3.30	3.40	3.40	3.40	3.40	3.35	3.35	3.30	3.25	3.15
5-year	3.28	3.50	3.55	3.55	3.60	3.55	3.55	3.55	3.50	3.45	3.40
7-year	3.42	3.65	3.70	3.75	3.75	3.75	3.75	3.75	3.70	3.65	3.60
10-year	3.68	3.85	3.90	3.90	3.95	3.95	3.95	3.95	3.90	3.85	3.80
30-year	4.09	4.20	4.25	4.25	4.30	4.30	4.30	4.30	4.25	4.20	4.15
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	3.88[6]	3.88	3.88	4.13	4.13	4.13	4.13	4.13	4.13	4.13
Fed funds target	3.63	3.74[6]	3.88	3.88	4.05	4.13	4.13	4.13	4.13	4.13	4.13
EFFR[3]	3.63	3.74	3.88	3.88	4.05	4.13	4.13	4.13	4.13	4.13	4.13
SOFR[4]	3.64	3.74	3.87	3.87	4.04	4.12	4.12	4.12	4.12	4.12	4.12
3-month bills	3.88	4.05	4.10	4.10	4.15	4.15	4.15	4.15	4.15	4.15	4.15
6-month	3.97	4.10	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25	4.25
1-year	4.03	4.30	4.35	4.40	4.40	4.35	4.35	4.30	4.25	4.15	4.05
2-year notes	4.22	4.55	4.55	4.55	4.55	4.50	4.45	4.40	4.25	4.05	3.90
3-year	4.28	4.65	4.65	4.65	4.70	4.65	4.60	4.55	4.40	4.25	4.10
5-year	4.38	4.70	4.75	4.75	4.80	4.75	4.70	4.70	4.60	4.45	4.25
7-year	4.52	4.80	4.85	4.85	4.90	4.90	4.85	4.85	4.75	4.60	4.45
10-year	4.68	4.90	4.95	4.95	5.00	5.00	5.00	5.00	4.90	4.80	4.65
30-year bonds	5.22	5.30	5.35	5.35	5.40	5.40	5.40	5.40	5.30	5.20	5.05
Prime rate	6.75	6.86[6]	7.00	7.00	7.17	7.25	7.25	7.25	7.25	7.25	7.25
Other G7											
ECB Deposit Rate[1]	2.25	2.50[6]	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10yr Bund	3.21	3.45	3.65	3.80	4.00	3.95	3.90	3.80	3.70	3.50	3.30
BoE Bank Rate[1]	3.75	3.75[6]	3.75	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00
SONIA[5]	3.73	3.73	3.73	3.73	3.73	3.73	3.94	3.98	3.98	3.98	3.98
10yr Gilt	5.02	5.25	5.40	5.55	5.70	5.65	5.60	5.50	5.40	5.20	5.00
BoJ O/N[1]	1.00	1.25[6]	1.25	1.25	1.50	1.50	1.50	1.75	1.75	2.00	2.00
10yr JGB	2.87	2.95	2.93	2.92	2.90	2.89	2.88	2.88	2.86	2.83	2.81

[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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