

Rates Scenario for October 13, 2026

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

Forecast Summary

(avg.)	Actual 2026 Sep	Forecasts 2026				2027				2027		
		2026	2026	2026	2026	2027	2027	2027	2027	2027	2027	2027
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	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	3.88	3.90	3.90	3.90	3.90	3.85	3.85	3.85	3.85	3.80	3.80	3.75
Fed funds ¹	3.88	3.88	3.88	4.13	4.13	4.13	4.13	4.13	4.13	4.13	4.13	4.13
10-yr Treasuries	4.99	5.25	5.25	5.25	5.25	5.20	5.15	5.10	5.05	5.00	4.85	4.70
C\$ per US\$	1.40	1.42	1.41	1.40	1.40	1.39	1.39	1.38	1.38	1.37	1.35	1.35
US\$/€	1.15	1.12	1.11	1.11	1.11	1.12	1.12	1.12	1.12	1.13	1.14	1.15
US\$/£	1.34	1.32	1.31	1.30	1.30	1.31	1.31	1.32	1.32	1.33	1.35	1.35
¥/US\$	156	158	158	158	158	158	158	157	157	157	156	155

¹ end of period

Sources: BMO Economics, Haver Analytics

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Canada-U.S. Rates

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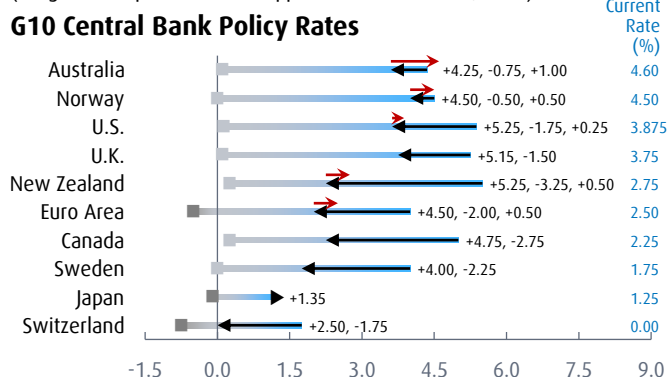
Rates On the Rise

With the Federal Reserve raising rates in September, the majority of the G10 central banks are now in a tightening phase. The Fed joined each of the Bank of Japan, Reserve Bank of Australia, Norges Bank, European Central Bank, and Reserve Bank of New Zealand in hiking rates last month. A common rate hike catalyst was higher realized inflation and/or inflation risk owing to higher oil prices (caused by the Iran war; *Chart 1*). Unlike the other central banks that are now reversing their post-pandemic hiking-then-cutting patterns, the BoJ is still on its original post-pandemic tightening path. Meanwhile, the RBA began reversing just before the war began owing to homegrown inflation pressures (all others shifted in the post-war period).

Among the remaining four central banks last month, the Riksbank signalled that “increases in the policy rate will begin this year.” The Swiss National Bank stated that current policy was “appropriate to keep inflation within the range consistent with price stability” (projected for the next three years) indicating no tightening required. The Bank of England kept rates unchanged with a 6-to-3 vote (the minority favoured a rate hike). We reckon the minority should be ruling by year-end, thus making it eight G10 central banks in a tightening phase. Finally, the Bank of Canada also kept policy rates unchanged, and, despite market expectations, we judge the BoC won’t make it nine. But the Riksbank and BoE won’t be alone during the remainder of the year. We’re forecasting the BoJ, RBA, ECB, RBNZ, and Fed to hike rates again.

Chart 1
All Rise?

(chng since September 2021 : ppts : as of October 13, 2026)



Source: BMO Economics, Haver Analytics, central banks

Federal Reserve: The FOMC raised policy rates by 25 bps on September 16, with the fed funds target range at 3.75%-to-4.00%. This was the first rate hike since July 2023 after a nine-month pause, and there were strong indications that a follow-up action was afoot. **First**, the rate hike was expected, but the unanimous decision to do so was not. Unanimity revealed, once again (recall 2022), that when inflation is deemed the 'enemy at the gate', policymakers—whether considered doves or hawks—rally around the price stability flag. The 'dot plot' showed that 16 of 18 participants pencilled in at least one more quarter-point move by year-end.

Second, there were Chair Warsh's words. The rate hike was referred to as "*removing a dose of accommodation*" which was repeated three separate times in the presser. This meant that, absent September's action, policy was not deemed restrictive enough amid current economic and financial conditions to ensure that inflation returned to the 2% target in a timely fashion. The rate hike was said to "*support a timelier return*". But in the nebulous world where state-dependent neutral policy rates reside, 25 bps doesn't travel far between the accommodative and restrictive boundaries. With his battle cry to "*deliver price stability*", the anti-forward-guidance Fed head was giving us just that.

Since the last confab, the data have been mixed, pointing more to a follow-up move on December 9 than October 28. Weighing on the October side of the data scale, there were the stronger-than-expected August readings on payroll jobs, core CPI, and retail sales. But on other (December) side, there were the weaker-than-expected results for the core PCEPI in August and payroll jobs in September. The market's October odds are now a bit above 20% compared to almost 75% at one point, with December still fully priced in. This week's September reports on the CPI and retail sales could alter the odds.

Meanwhile, the parade of Fed speakers has mostly marched to a hawkish beat, differentiating on how urgently a follow-up rate hike is required. We're betting on December, and then done, as inflation starts behaving better and prods a policy pause (but the net risk is for even more tightening).

Bank of Canada: The BoC kept policy rates unchanged on September 2 with the overnight target at 2.25% (the bottom of the 2.25%-to-3.25% neutral range) for the seventh consecutive meeting (and 11th month). The statement concluded that "*the upside risks to inflation have increased, while new tariffs make growth prospects more uncertain*." With risks rising on both sides, the case for staying the course was bolstered. However, in the press conference, Governor Macklem seemed to suggest that the balance of risks was tilted a bit to faster inflation.

On the growth risks, Macklem said new tariffs "*will hit targeted sectors hard*" but there should be no "*large direct impact*" on the overall economy, partly owing to Ottawa's new support programs. He noted increased U.S. trade uncertainty could cause businesses to further "*delay investment and hiring decisions*." But on the inflation risks, Macklem 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 U.S. tariffs and the Canadian counter-tariffs could add costs for some businesses and feed into consumer prices over time*."

Meanwhile, recent data have been weighing on both sides of the balance. The latest employment report showed back-to-back jobs losses totalling a hefty 110k during August and September, indicating that tariffs and counter-tariffs could already be having a negative economic impact. On the other side, the yearly changes in the CPI trim (mean) and median were averaging 2% exactly, with the three-month changes just a hint hotter at 2.2% annualized, which is no problem. Interestingly, the short-term trends in the other core measures (ex. food & energy, CPIX) were sporting 3%-plus handles (annualized), which could portend a problem.

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 currently pricing a full quarter-point hike by January and two more by July. 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: Ten-year Treasury yields averaged 4.99% last month, the highest since July 2007. And so far this month, they are averaging a bit above 5.25%, the highest since March 2002. We reckon 5%-plus monthly prints are going to persist for a while.

Around the world, stubbornly high oil prices are greasing a mix of rising inflation expectations and risks (with the latter more dominant), 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. 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 binge and its positive implications for longer-run nominal GDP growth.

As next year unfolds with a couple of Fed rate hikes under the belt, the AI spending boom cooling (but still growing strongly), and oil prices finally calming, we reckon yields could start trending down... looking ahead to the eventual normalization of Fed policy rates. (We see policy rates starting to trend back down to around 3.25% in 2028.) Yields with '4-handles' should be common again in the latter half of next year.

Meanwhile, Canada-U.S. 10-year yield spreads have moved more negative. They averaged around -110 bps last month and are averaging about -135 bps so far this month, closing in on the record level. The latter was hit February 2025 (at -139 bps) when U.S.-tariff-induced Canadian recession talk was peaking. The outperformance is surprising given the Canadian bond market is dealing with its own mix of inflation issues (some short-term core metrics a bit sticky), Bank of Canada rate hike speculation (market pricing about 90 bps of tightening in the year ahead), and fiscal concerns (increasing deficits among many jurisdictions). We reckon current spreads could linger into the new year, or until further Fed tightening is out of the picture. Ultimately, spreads should move meaningfully less negative (more than halved) as central bank normalization efforts unfold.

U.S. dollar: On average, the greenback hardly budged last month despite the Fed raising policy rates. According to the Wall Street Journal Dollar Index, the big dollar gained just 0.1%. With many of the other major central banks tightening too, perhaps the U.S. dollar was unable to garner much immediate traction. However, it has gained 1.5% so far this month; and if the average level holds, it would represent the highest mark since before April 2025 (the month of Liberation Day).

Fed rate hike #2 could provide a little more lift still (despite other central banks expected to hike too), particularly against the backdrop of continued (if not escalating) geopolitical risks (e.g., Iran war) and global economic risks (e.g., oil prices). Meanwhile, the capital inflow beacon provided by America's AI spending boom and associated economic resiliency should provide support as well. At least a sideways or mildly appreciating trend should persist until most of the above-mentioned factors are no longer in play. (Should the Fed signal that it's likely done after December 9, the greenback could even start faltering through the turn of the year.)

Canadian dollar: Despite little net movement in the U.S. dollar last month, the loonie lost about 0.5% against the greenback as the escalating trade war with the U.S. took its toll. And as the big dollar has found traction so far this month, the Canadian dollar has depreciated an additional 2.0%. If the average level holds (around C\$1.425 or US \$0.702) it would represent the weakest level since March 2025 when the Trump Administration's first wave of tariffs on Canada were hitting. At this point, it will take the greenback stumbling to give the loonie some legs. While we see this occurring at least a bit with the Canadian currency averaging around C\$1.400 or US\$0.714 in December, we judge the net risk lies on the weaker side.

Overseas

Jennifer Lee, Senior Economist

Let the tightening continue... but perhaps at a more measured pace...

That seems to be the *modus operandi* these days. The **ECB** has raised rates twice so far this year, in June and September. Although most, if not all, policymakers continued to talk tough about tightening further—particularly with the Euro Area's September inflation rate at a 3-year high of 3.8%—the case for an October rate hike has weakened for a few reasons. There is the fact that the core CPI was only up modestly, from 2.4% in August to 2.5% in September, in line with the average over the past two years. And, services inflation perked up only 0.2 percentage points to 3.2%, but it has improved. But the recent ugly sell-off in EGBs, particularly in France, has done some of the tightening for the ECB. The central bank has limited options in helping out France. It cannot use the Transmission Protection Instrument, or TPI, to buy bonds because, well, that particular tool requires the sell-off to be "*unwarranted*" and it is pretty safe to say that... I'll be kind here the international investor community is concerned about the direction of spending and the lack of political will to pull it back. The ECB can, however, help by not fanning the flames by **sitting out the October meeting** and seeing how the bond market behaves. Still, energy prices remain elevated, and Dutch TTF gas prices are at their highest levels in nearly four years. So, we continue to look for a **December rate hike**.

Meantime, the **BoJ** also raised rates twice so far this year (in June and September) and it, too, is **likely to take a pass at the October meeting before lifting its policy rate one more time in December**. Its longer-term bond yields have hit multi-decade, if not record, highs, which itself is tightening financial conditions. But, inflation remains a problem and judging by Tokyo's latest inflation data (a good indicator of the national figure), another hike is coming. The capital's latest headline inflation reading for September jumped to 2.7% y/y, a significant pickup from August's 1.8% rate. Excluding fresh food, core CPI also accelerated 0.9 ppts to a 10-month high of 2.7%, while core-core CPI jumped 1 ppt to 3.0%. And real cash earnings have been growing for eight straight months (or 1.5% in August). However, the Board is not unanimously hawkish: two policymakers voted against the September rate hike, preferring policy to remain steady, citing that the economy is not exactly strong. Indeed, the latest reading for retail sales (down 1.2% in August), and industrial production (unexpectedly tumbled 1.7% in August, though the powerful earthquake that hit the Kumamoto prefecture likely had an impact since semiconductor manufacturers are located there) would support a pause.

Then there is the **RBA**. It has raised rates four times this year, most recently in September following two monthly pauses in a row. **We look for another rate hike to follow in November**, judging by the hawkish tone from the Minutes of that September meeting. First, the weak below-the-surface September jobs report was noted by the Board, but it warned that "*considerable caution*" was needed when looking at the labour force data given that there were "*methodological changes to the survey*" and that other indicators pointed to either "*stability in labor market conditions*" or that they were "*strengthening a little*". Interesting. So very interesting. And, the Minutes cited three reasons to raise rates, including excess demand being greater than what they had previously thought, that responding in a "*timely manner*" is better than waiting for confirmation from inflation (in fact, waiting "*could be costly*"); and that the current level of rates "*might not be sufficient to bring the economy back to balance within a reasonable timeframe*". All in, though the upcoming jobs report will shed light on the decision, the September and Q3 CPI report (due out October 27) will be the final determining factor.

Finally, there's the **BoE**. Much is riding on Chancellor Healey's first budget, which he will table on October 28. Our **Laurence Mutkin**, Director & Head of EMEA Rates Strategy, has steadfastly stuck to his view that the Bank *should* stay on the sidelines, but he notes that the BoE's stance is becoming more and more uncomfortable, particularly with the Bank's Decision Maker Panel (DMP) survey of inflation expectations one year out showing a pick-up to 3.3% in September. Meantime, the U.K. economy has been surprising on the high side, with the recent Q2 real GDP results revised up to 2.1% annualized. Recently, Deputy Governor Dave Ramsden added his voice to those suggesting that Bank Rate may need to be higher: "*The risks to the inflation outlook, whether external or domestically generated,*

have tilted more to the upside" and with that in mind, *"there could be a case for increasing Bank Rate"*. Remember: he has voted to hold for the last five meetings. And a few weeks ago, Governor Bailey warned that *"prolonged high energy prices"* is making it *"increasingly difficult"* to keep rates where they are now. **The hawks just need two more votes to push a hike through and they will likely get them in November.**

Foreign Exchange Forecasts

(local currency per US\$: avg.)	Actual 2026 Sep	Forecasts 2026				2027				2027		
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	Q2	Q3	Q4	
Canadian Dollar												
C\$ per US\$	1.40	1.42	1.41	1.40	1.40	1.39	1.39	1.38	1.38	1.37	1.35	
US\$ per C\$ ¹	0.716	0.704	0.709	0.714	0.716	0.719	0.721	0.723	0.725	0.732	0.738	
Trade-weighted	111.4	110.5	111.4	112.1	112.4	112.6	112.8	113.1	113.3	114.1	114.8	
U.S. Dollar												
Trade-weighted ²	119.2	121.4	121.4	121.1	120.9	120.7	120.4	120.2	120.0	119.3	118.7	
European Currencies												
Euro ¹	1.15	1.12	1.11	1.11	1.11	1.12	1.12	1.12	1.13	1.14	1.15	
Danish Krone	6.50	6.65	6.70	6.75	6.70	6.70	6.70	6.65	6.65	6.60	6.50	
Norwegian Krone	9.39	9.55	9.60	9.60	9.60	9.55	9.50	9.50	9.45	9.40	9.30	
Swedish Krona	9.78	9.95	10.00	10.05	10.05	10.00	10.00	9.95	9.90	9.85	9.75	
Swiss Franc	0.82	0.83	0.83	0.82	0.82	0.82	0.81	0.81	0.81	0.80	0.79	
U.K. Pound ¹	1.34	1.32	1.31	1.30	1.30	1.31	1.31	1.32	1.32	1.33	1.35	
Asian Currencies												
Chinese Yuan	6.71	6.70	6.70	6.69	6.69	6.69	6.69	6.69	6.69	6.68	6.68	
Japanese Yen	156	158	158	158	158	158	157	157	157	156	155	
Korean Won	1,359	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	
Indian Rupee	95.5	95.7	95.5	95.2	95.2	95.2	95.2	95.2	95.2	95.1	95.1	
Singapore Dollar	1.27	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	
Malaysian Ringgit	4.07	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	
Thai Baht	33.2	33.6	33.6	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	
Philippine Peso	62.6	62.8	62.7	62.7	62.7	62.7	62.7	62.6	62.6	62.6	62.6	
Taiwan Dollar	31.7	32.1	32.1	32.1	32.1	32.1	32.1	32.1	32.1	32.1	32.1	
Indonesian Rupiah	17,764	17,900	17,885	17,875	17,870	17,870	17,870	17,865	17,865	17,855	17,850	
Other Currencies												
Australian Dollar ¹	0.712	0.697	0.694	0.690	0.692	0.693	0.695	0.697	0.698	0.703	0.708	
New Zealand Dollar ¹	0.576	0.561	0.560	0.560	0.561	0.562	0.563	0.565	0.566	0.570	0.574	
Mexican Peso	17.27	18.30	18.10	17.95	17.90	17.90	17.85	17.80	17.75	17.65	17.55	
Brazilian Real	5.14	5.05	5.05	5.05	5.05	5.00	5.00	5.00	4.95	4.90	4.85	
South African Rand	16.2	16.5	16.3	16.0	16.0	16.0	15.9	15.9	15.9	15.8	15.8	
Cross Rates												
Versus Canadian Dollar												
Euro (C\$/€)	1.61	1.59	1.57	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	
U.K. Pound (C\$/£)	1.87	1.87	1.85	1.82	1.82	1.82	1.82	1.82	1.82	1.82	1.82	
Japanese Yen (¥/C\$)	112	111	112	113	113	113	113	113	114	114	115	
Australian Dollar (C\$/A\$)	0.99	0.99	0.98	0.97	0.97	0.96	0.96	0.96	0.96	0.96	0.96	
Versus Euro												
U.K. Pound (£/€)	0.86	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	
Japanese Yen (¥/€)	180	177	175	175	176	176	176	176	177	177	178	

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

Sources: BMO Economics, Haver Analytics

Interest Rate Forecasts

(% : avg.)	Actual 2026 Sep	Forecasts										
		2026 Oct	Nov	Dec	2027 Jan	Feb	Mar	Apr	2027 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	2.29	2.28	2.26	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	
3-month bills	2.33	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.35	
6-month	2.54	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	
1-year	2.91	2.85	2.85	2.85	2.85	2.85	2.85	2.85	2.85	2.80	2.75	
2-year bonds	3.27	3.20	3.20	3.20	3.15	3.15	3.15	3.10	3.10	3.00	2.95	
3-year	3.36	3.30	3.35	3.35	3.35	3.35	3.30	3.30	3.25	3.20	3.15	
5-year	3.57	3.55	3.55	3.55	3.50	3.50	3.50	3.45	3.45	3.40	3.35	
7-year	3.67	3.65	3.70	3.70	3.70	3.70	3.65	3.65	3.65	3.60	3.55	
10-year	3.88	3.90	3.90	3.90	3.85	3.85	3.85	3.85	3.80	3.80	3.75	
30-year	4.22	4.25	4.25	4.25	4.25	4.20	4.20	4.20	4.20	4.15	4.10	
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)	3.88	3.88	3.88	4.13	4.13	4.13	4.13	4.13	4.13	4.13	4.13	
Fed funds target	3.74	3.88	3.88	4.05	4.13	4.13	4.13	4.13	4.13	4.13	4.13	
EFFR ³	3.75	3.88	3.88	4.05	4.13	4.13	4.13	4.13	4.13	4.13	4.13	
SOFR ⁴	3.75	3.87	3.87	4.04	4.12	4.12	4.12	4.12	4.12	4.12	4.12	
3-month bills	4.09	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	
6-month	4.18	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	
1-year	4.37	4.45	4.45	4.45	4.45	4.40	4.35	4.30	4.30	4.15	4.05	
2-year notes	4.65	4.80	4.80	4.80	4.70	4.65	4.60	4.50	4.45	4.20	4.00	
3-year	4.73	4.90	4.90	4.90	4.85	4.80	4.70	4.65	4.55	4.35	4.15	
5-year	4.80	5.00	5.00	5.00	4.95	4.90	4.85	4.80	4.70	4.55	4.35	
7-year	4.89	5.15	5.15	5.15	5.10	5.05	4.95	4.90	4.85	4.70	4.55	
10-year	4.99	5.25	5.25	5.25	5.20	5.15	5.10	5.05	5.00	4.85	4.70	
30-year bonds	5.37	5.60	5.60	5.60	5.55	5.50	5.45	5.40	5.35	5.25	5.10	
Prime rate	6.86	7.00	7.00	7.17	7.25	7.25	7.25	7.25	7.25	7.25	7.25	
Other G7												
ECB Deposit Rate ¹	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	
10yr Bund	3.49	3.75	4.00	4.25	4.15	4.10	4.00	3.95	3.85	3.60	3.40	
BoE Bank Rate ¹	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	
SONIA ⁵	3.73	3.73	3.95	3.98	3.98	3.98	3.98	3.98	3.98	3.98	3.98	
10yr Gilt	5.30	5.45	5.65	5.95	5.85	5.80	5.70	5.65	5.55	5.30	5.10	
BoJ O/N ¹	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	2.00	2.00	
10yr JGB	2.99	3.10	3.15	3.15	3.14	3.13	3.11	3.10	3.09	3.05	3.01	

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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