Rates Scenario for November 12, 2026

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Forecast Summary

(avg.)	Actual	Forecasts									
	2026	2026		2027						2027	
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Q3	Q4
BoC overnight[1]	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10-yr Canadas	3.87	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.70	3.70
Fed funds[1]	3.88	3.88	4.13	4.13	4.13	4.38	4.38	4.38	4.38	4.38	4.38
10-yr Treasuries	5.13	5.00	5.00	5.00	5.00	5.00	5.00	4.95	4.90	4.85	4.75
C$ per US$	1.41	1.42	1.40	1.40	1.39	1.39	1.38	1.38	1.38	1.37	1.35
US$/€	1.12	1.11	1.10	1.10	1.11	1.11	1.11	1.11	1.12	1.12	1.13
US$/£	1.33	1.32	1.32	1.32	1.33	1.33	1.33	1.33	1.34	1.34	1.35
¥/US$	158	158	157	157	157	157	156	156	156	156	155

[1] *end of period*

Sources: BMO Economics, Haver Analytics

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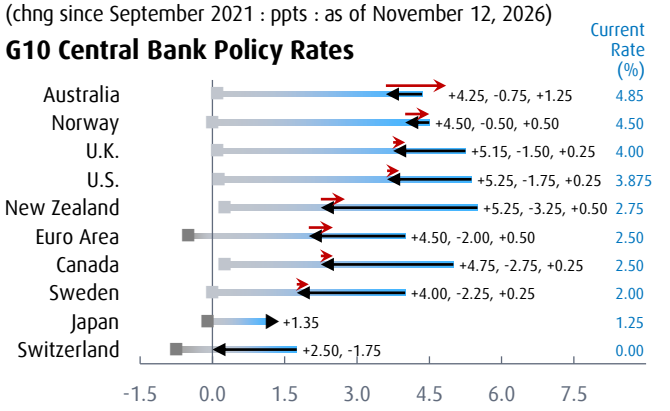
Canada-U.S. Rates

Michael Gregory, CFA, Deputy Chief Economist

A Rate-Hike Flush... Almost

Since our last Rates Scenario (October 13), the number of G10 central banks raising policy rates has grown from six to nine, with the Bank of Canada, Riksbank and the Bank of England joining the tightening club (*Chart 1*). A common catalyst for rate hikes has been higher realized inflation and rising inflation risks owing to higher crude oil and petroleum product prices in the wake of the Iran war. Each central bank is interpreting the shared inflation impulse in the context of their existing domestic inflation dynamics. By the end of this year, we reckon more G10 central banks will have added to their rate hike totals, led by the Fed.

Chart 1
Rise Time



Sources: BMO Economics, Haver Analytics, central banks

Federal Reserve: The FOMC **left policy rates unchanged** on October 28 with the fed funds target range at 3.75%-to-4.00%, after raising rates by 25 bps in September for the first time since July 2023 (and last lowering them in December 2025). The vote was 10 to 2, with Governor Cook and Cleveland President Hammack voting in favour of another quarter-point rate hike. In the statement, the economic assessment was unchanged except for one word describing the economic expansion as *"strong"* compared to *"solid"* before (an upgrade). In the press conference, Chair Warsh said the economy was strengthening, and the strength was *"broadening"* (not just the AI-related spending boom) which *"bears watching"*.

The statement also newly added that *"the accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation"* to the 2% goal. This means that a 'timely' trajectory

has not yet been locked in, and the Fed likely has more tightening work to do. This, along with the two dissenting votes, framed October's policy decision as a 'hawkish hold' with a **rate hike clearly on the table for December 9**. In the presser, Warsh also mentioned a few times that the coming intermeeting interval will be *"information rich"*, which might have been one rationale for the pause (to accumulate more information).

The key data since then have supported further tightening. **October's core CPI** was higher than expected showing an accelerating yearly change (+0.3 ppts to 2.8%) and three-month trend (+0.3 ppts to 3.7% annualized). The core services ex-rents metric was hotter at +0.4 ppts to 3.5% y/y and +0.9 ppts to 5.5% annualized, respectively. (Note, the yearly changes are based on interpolated index values for October 2025.) Meanwhile, **nonfarm payrolls** expanded by a larger-than-expected 165k in October, lifting the three-month average gain to 137k (the second-strongest reading in 2½ years). And the unemployment rate surprised by drifting down a tenth to 4.1%, which is just below the FOMC's 4.2% median projection of the natural rate. Even average hourly earnings perked up.

The **next critical reports** ahead of the December 9 FOMC meeting include **October's PCE price index** (November 25 with the 2nd GDP estimate) and **November's payrolls** (December 4). A 25 bp rate hike looks locked in as long as these reports don't contradict the stubborn inflation-sturdy economic growth picture drawn by the latest key data. And we reckon the net risks are tilted more to a 50 bp move than another pause. We continue to forecast a total 50 bps worth of tightening by March before standing pat for the remainder of the year.

Bank of Canada: The Bank **raised the target for the overnight rate by 25 bps to 2.50%** on October 28, the first rate hike since July 2023 (and exactly a year after last cutting). In the press conference, Governor Macklem said: *"With elevated inflation expected to last longer and the economy showing resilience, Governing Council agreed that risks to inflation had increased and there was less scope for monetary accommodation."*

The BoC's inflation forecast was lifted meaningfully (with more focus on the total instead of the core metrics). Compared to three months ago, CPI inflation is 3.4% y/y in 2026 Q4, up a full percentage point from before, and 2.6% y/y in 2027 Q4, compared to hitting the 2.0% target before. This is reflecting petroleum product prices remaining *"higher for longer"*, the prices of imported industrial and electronics inputs being impacted by the trifecta of fuel costs, counter-tariffs, and past Canadian dollar depreciation, along with the assumption that *"cost pass-through will increase over the next year"* (owing to surveys and new modelling). Meanwhile, the outlook for real GDP growth was lifted by 0.3 ppts to 1.0% for this year and 0.2 ppts to 2.0% for next year *"reflecting data showing stronger-than-expected activity, new incentives for business investment and an upward revision to population"* (from the MPR). The lift here means less economic slack acting to partly offset inflation pressures.

In the presser, Macklem added: *"There could be a need to raise the policy rate further, but given the uncertainties, we will proceed carefully."* Our base case is for the BoC to skip the next meeting on December 9 and hike rates by another quarter point on January 27, assuming raised inflation risks continue to linger. Typically, the Bank has acted in consecutive meetings, but casting last month's action as a risk management move alludes to an atypical cadence. Meanwhile, the latest data appear to be tipping the Bank's *"hold or hike"* scale to the hold side. After two zeros in July and August, the **early read on September real GDP growth** was -0.1%. The BoC's fresh forecast for annualized 2.0% growth in Q3 is already looking well underwater. And October reported its third consecutive decrease in **employment**. The economic *"resilience"* narrative is now being tested. After a potential rate hike follow-up in January, we look for a policy hold for the remainder of the year, with rates at the middle of the Bank's estimated 2.25%-to-3.25% neutral range.

Bond yields: Ten-year Treasury yields averaged 5.13% last month, the first '5 handle' (for a monthly mean) since the summer of 2007 and the highest measure in more than 24 years. The daily closes followed the theme with a near-quarter-century high (5.31%) hit on October 5, partly on increasing Fed tightening expectations. But yields have (net) ebbed since, reflecting the pullback in crude oil prices as the feared post-election re-escalation of the Iran war was ruled out by the Administration (for now). They closed under 4.85% before the pair of stronger-than-expected

employment and CPI reports pushed them above 5% again. So far this month, 10-year yields are averaging under 5%, but we judge the 5% (monthly) line should hold as long as the Fed is in a tightening mode.

As next year unfolds with two more quarter-point Fed rate hikes under the belt along with petroleum product prices calming and the AI spending boom cooling (but still growing strongly), we reckon yields could start trending down… looking ahead to the eventual normalization of Fed policy. (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, but there could be resistance returning to the 4.25% longer-run level (our estimate) with market concerns over the unsustainable paths for Treasury's deficits, debt, and interest payments likely to mount.

Meanwhile, **Canada-U.S. 10-year yield spreads** averaged -126 bps last month, moving more negative as Treasury yields were rising to multi-decade highs. Apart from the first quarter of 2025, when speculation about U.S. tariffs, Canadian recession, and BoC rate cuts was running rampant, spreads have never been this negative (note: the monthly average troughed at -139 bps in February 2025). So far this month, yield differentials are averaging -122 bps.

Given that the Canadian bond market is dealing with its own mix of inflation issues (serious enough to hike rates according to the central bank), Bank of Canada rate hike speculation (the market is pricing about 80 bps of tightening in the year ahead), and fiscal concerns (increasing deficits among many jurisdictions), the degree of outperformance is surprising. Nevertheless, 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 (roughly halved) as central bank normalization efforts unfold.

U.S. dollar: The greenback is grinding stronger in the wake of Fed tightening, amid ebbing but still lingering geopolitical and global economic risks. According to the Wall Street Journal Dollar Index, the currency averaged a 1.3% gain last month after inching up only 0.1% in September and so far in November, the big dollar is back in 'inching' mode (up 0.1%). But it did start gaining more traction after the stronger-than-expected employment and CPI reports (and their potential impacts on Fed policy), so the final November figure should show a bigger gain. The latest daily close was already the highest level since early April 2025 (the month of Liberation Day). Fed rate hikes next month and early next year should boost the greenback further (despite other central banks expected to hike too), and we see it peaking by the spring. With the Fed not expected to hit the normalization road until 2028, how much the currency slips from its peak will be partly determined by the intensity of geopolitical and global economic risks along with how robust America's AI spending boom remains (the boom has been a beacon for hefty capital inflows).

Canadian dollar: Last month, despite the BoC rate hike, the loonie fell 1.2% to an average C$1.414 (US$0.708), a reflection of U.S. dollar strength. This marked the Canadian dollar's weakest level since the first quarter of 2025 when 22-year extremes were occurring amid rampant speculation about U.S. tariffs, Canadian recession, and BoC easing. In the wake of the BoC's latest action, the loonie's daily closes appreciated to below C$1.40, but it didn't last. The recent run of weak domestic data (and the implications for BoC policy) appears to have taken its toll with the loonie now well above C$1.42. The Canadian dollar looks to remain at the mercy of either the prospects for Fed rate hikes and the greenback or the tone of domestic data and BoC tightening prospects for the next few months.

Overseas

Jennifer Lee, Senior Economist

With the recent drop in WTI to one-month lows of below $90/bbl and Brent to the low-$90s (levels not seen since August), **the urgency to tighten has cooled somewhat, but it has not disappeared**. Now, with the Iran war in its 9th month, all the major central banks have tightened in varying degrees. Yes, the BoJ started back in 2024 (domestic reasons), and the RBA began a few weeks before the war began (also domestic reasons), but the rest have joined in, including the Fed (September), the BoC (October), the ECB (June and September) and the BoE finally caved with its own rate hike in November.

So what's next between now and the final rate decisions in December? The RBA will kick it off with its December 8 announcement, followed by the RBNZ, the BoC and the Fed the next day (December 9); the SNB on December 10; the Riksbank on December 15; the Norges Bank, the BoE and ECB on December 17; and the BoJ will wrap it all up on December 18. We won't go into each central bank, but here are some thoughts on the usual under our coverage following their recent actions.

- The **RBA** raised the cash rate 25 bps to an 18-year high of 4.85% in early November, the fifth hike this year. Given how **Q3 and September CPI** came in hotter than expected, the move was not a shock. September's headline (4.3%) and the trimmed mean (3.6%) are still very much beyond the 2%-to-3% target range, which means that, in the words of **Assistant Governor Sarah Hunter**, the bank was "*not quite yet*" finished fighting inflation. But it was a dovish hike, as it was only backed by two-thirds of the nine voters: the 3 dissenters preferred to pause. Notably, while the RBA repeated that it would do what is necessary to bring inflation back to target, it omitted the phrase "*including increasing the cash rate target further if needed*". And, **Governor Michele Bullock** said that the Board was "*preserving its options*". The impact of the "*last couple*" of rate hikes "*haven't started to flow through yet*", and they wanted to "*take stock for a minute and see what comes in*", but there is still concern that if inflation diverges from the target too long, then there's a risk that it becomes "*embedded in inflation expectations, which feeds through to price and wage-setting decisions*". With all of that in mind, and the increased inflation forecasts (won't slow to the top of the target range until late 2027), **we are looking at a pause on December 8, and one final hike on February 9**.
- The **BoE** was the last of the G7 to tighten. It raised Bank Rate 25 bps to a one-year high of 4.00% on November 5, the first increase in three years. It was a very hawkish hike: all but one member of the MPC supported the move, and the dissenter, Catherine Mann, pushed for a 50 bp increase, which she called "*good policy*". Since then, she refused to rule out a back-to-back hike. For the November meeting, inflation forecasts were raised (headline CPI is expected to accelerate to "*around 5% in 2027Q2*"); it was observed that "*many measures of underlying inflation were no longer falling*"; and, the risk of "*material second-round effects emerging had risen*" and "*could remain a risk for some time*". And, there are at least a handful of policymakers who made reference to more hikes in their official comments and likely felt justified after the strong Q3 and September real GDP results. **We look for the BoE to raise rates again on December 17.**
- The **ECB** paused at its most recent meeting on October 30 (President Lagarde's third-last one), to the surprise of no one, but there is likely another rate hike coming. Indeed, October wasn't an all-out hawkish pause but, as President Lagarde put it, "*the direction of travel is clear*". Note that the members discussed hiking but unanimously decided to wait as a "*measured approach*" was appropriate. Upside risks to inflation (energy prices, Middle East, Russia) were cited, along with the warning that if energy prices stay elevated, they could drive inflation higher through second-round effects (which they haven't seen yet). Although oil prices have cooled since that meeting, all policymakers continued to signal that a December rate hike was coming. There were the hawks, such as the Bundesbank's Joachim Nagel ("*seems to be a rather obvious outcome"*). There were the moderates, including Chief Economist Philip Lane (if nothing changes between now and December, "*I think it would be rather prudent indeed to hike*".) And the two candidates to replace Christine Lagarde, the Netherlands' Klaas Knot and Spain's Pablo

Hernandez De Cos, are both on board. With Euro Area inflation hitting a 3-year high of 4.0% in October (double the target!), **we expect another ECB hike on December 17**.

- The **BoJ** will be the last central bank to announce in December, and we fully expect a 25 bp rate hike to a 31-year high of 1.50%. The decision to hold at the previous meeting on October 30 was hawkish. Yes, the vote to stay on the sidelines was 8-to-1, but the dissenter, Takata Hajime, opted to hike 25 bps, citing that with underlying inflation at target, it is a "*new phase*" and the "*Bank needs to step up the pace*". Couldn't have said that better myself. The BoJ also declared that "*underlying CPI inflation is at a level that is generally consistent with the price stability target of 2 percent, and is expected to remain at around that level*". Saying that was a big deal, as it replaced the phrase that inflation is "*approaching 2 percent*". In other words, mission accomplished. Piling on the hawkish tone was the increase in the 2027 inflation forecasts… in July, the Bank was looking at 2.4%; now, it is 2.6%. And, it warned that "*There is a risk that medium- to long-term inflation expectations will rise and underlying CPI inflation will deviate upward to a level above the price stability target of 2 percent, given that firms' behavior has been shifting more toward raising wages and prices and there are various factors that could drive up prices*." Tokyo inflation also unexpectedly accelerated in October, rising 0.1 ppts to 2.8% y/y. **The door is open for another BoJ rate hike on December 18.**

Foreign Exchange Forecasts

(local currency per US$: avg.)	Actual 2026 Oct	Forecasts 2026 Nov	Dec	2027 Jan	Feb	Mar	Apr	May	Jun	2027 Q3	Q4
Canadian Dollar											
C$ per US$	1.41	1.42	1.40	1.40	1.39	1.39	1.38	1.38	1.38	1.37	1.35
US$ per C$[1]	0.708	0.704	0.714	0.716	0.719	0.721	0.723	0.725	0.727	0.732	0.738
Trade-weighted	111.1	111.0	112.6	112.8	113.1	113.3	113.6	113.8	114.1	114.6	115.3
U.S. Dollar											
Trade-weighted[2]	121.5	122.2	122.0	121.8	121.5	121.3	121.1	120.9	120.6	120.2	119.5
European Currencies											
Euro[1]	1.12	1.11	1.10	1.10	1.11	1.11	1.11	1.11	1.12	1.12	1.13
Danish Krone	6.68	6.70	6.80	6.80	6.75	6.75	6.75	6.70	6.70	6.70	6.65
Norwegian Krone	9.45	9.50	9.65	9.60	9.60	9.55	9.55	9.55	9.50	9.45	9.40
Swedish Krona	9.96	9.90	10.05	10.05	10.00	10.00	9.95	9.95	9.90	9.90	9.80
Swiss Franc	0.83	0.83	0.82	0.82	0.82	0.81	0.81	0.81	0.81	0.80	0.79
U.K. Pound[1]	1.33	1.32	1.32	1.32	1.33	1.33	1.33	1.33	1.34	1.34	1.35
Asian Currencies											
Chinese Yuan	6.68	6.68	6.67	6.67	6.67	6.67	6.66	6.66	6.66	6.66	6.65
Japanese Yen	158	158	157	157	157	157	156	156	156	156	155
Korean Won	1,337	1,340	1,340	1,340	1,335	1,335	1,335	1,335	1,335	1,335	1,335
Indian Rupee	95.5	94.0	93.7	93.7	93.7	93.6	93.6	93.6	93.6	93.5	93.4
Singapore Dollar	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28
Malaysian Ringgit	4.08	4.05	4.10	4.10	4.05	4.05	4.05	4.05	4.05	4.05	4.05
Thai Baht	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.6	33.6	33.6
Philippine Peso	63.2	63.2	63.2	63.2	63.2	63.2	63.2	63.1	63.1	63.1	63.1
Taiwan Dollar	32.3	32.9	32.9	32.9	32.9	32.9	32.8	32.8	32.8	32.8	32.8
Indonesian Rupiah	18,011	18,130	18,135	18,130	18,130	18,125	18,120	18,115	18,110	18,100	18,085
Other Currencies											
Australian Dollar[1]	0.699	0.690	0.690	0.692	0.693	0.695	0.697	0.698	0.700	0.703	0.708
New Zealand Dollar[1]	0.564	0.558	0.560	0.561	0.562	0.563	0.565	0.566	0.567	0.570	0.574
Mexican Peso	18.45	18.60	18.50	18.45	18.40	18.30	18.25	18.20	18.15	18.00	17.80
Brazilian Real	5.13	5.55	5.50	5.50	5.45	5.45	5.45	5.40	5.40	5.35	5.30
South African Rand	16.6	16.6	16.0	16.0	16.0	15.9	15.9	15.9	15.9	15.8	15.8
Cross Rates											
Versus Canadian Dollar											
Euro (C$/€)	1.58	1.58	1.54	1.54	1.54	1.54	1.54	1.53	1.53	1.53	1.53
U.K. Pound (C$/£)	1.88	1.88	1.85	1.85	1.84	1.84	1.84	1.84	1.84	1.83	1.82
Japanese Yen (¥/C$)	112	111	112	112	113	113	113	113	113	114	115
Australian Dollar (C$/A$)	0.99	0.98	0.97	0.97	0.96	0.96	0.96	0.96	0.96	0.96	0.96
Versus Euro											
U.K. Pound (£/€)	0.84	0.84	0.83	0.83	0.83	0.83	0.83	0.83	0.84	0.84	0.84
Japanese Yen (¥/€)	177	175	173	173	173	173	174	174	174	174	175

[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	
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Q3	Q4
Canada											
Overnight target (period end)	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Overnight target	2.27	2.50	2.50	2.52	2.75	2.75	2.75	2.75	2.75	2.75	2.75
CORRA[2]	2.29	2.52	2.50	2.52	2.75	2.75	2.75	2.75	2.75	2.75	2.75
3-month bills	2.44	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.70	2.70	2.70
6-month	2.65	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80
1-year	2.95	3.05	3.05	3.05	3.05	3.00	3.00	3.00	3.00	2.95	2.90
2-year bonds	3.27	3.30	3.30	3.30	3.25	3.25	3.20	3.15	3.15	3.10	3.00
3-year	3.38	3.40	3.40	3.40	3.40	3.35	3.35	3.30	3.30	3.25	3.15
5-year	3.58	3.50	3.50	3.50	3.50	3.50	3.45	3.45	3.45	3.40	3.35
7-year	3.66	3.55	3.65	3.65	3.65	3.60	3.60	3.60	3.60	3.55	3.50
10-year	3.87	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.70	3.70
30-year	4.20	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.05	4.00
Prime rate	4.47	4.70	4.70	4.72	4.95	4.95	4.95	4.95	4.95	4.95	4.95
United States											
Fed funds target (period end)	3.88	3.88	4.13	4.13	4.13	4.38	4.38	4.38	4.38	4.38	4.38
Fed funds target	3.88	3.88	4.05	4.13	4.13	4.23	4.38	4.38	4.38	4.38	4.38
EFFR[3]	3.88	3.88	4.05	4.13	4.13	4.24	4.38	4.38	4.38	4.38	4.38
SOFR[4]	3.90	3.89	4.04	4.12	4.12	4.23	4.37	4.37	4.37	4.37	4.37
3-month bills	4.23	4.30	4.30	4.30	4.30	4.35	4.35	4.35	4.35	4.35	4.35
6-month	4.32	4.35	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40
1-year	4.46	4.55	4.60	4.60	4.60	4.65	4.60	4.55	4.55	4.45	4.35
2-year notes	4.74	4.75	4.80	4.80	4.85	4.90	4.80	4.70	4.65	4.50	4.25
3-year	4.84	4.80	4.85	4.85	4.90	4.90	4.85	4.80	4.70	4.60	4.35
5-year	4.93	4.85	4.90	4.90	4.95	4.95	4.90	4.85	4.80	4.65	4.50
7-year	5.02	4.95	4.95	4.95	5.00	5.00	4.95	4.90	4.85	4.75	4.60
10-year	5.13	5.00	5.00	5.00	5.00	5.00	5.00	4.95	4.90	4.85	4.75
30-year bonds	5.47	5.40	5.40	5.40	5.40	5.40	5.35	5.30	5.25	5.20	5.10
Prime rate	7.00	7.00	7.17	7.25	7.25	7.36	7.50	7.50	7.50	7.50	7.50
Other G7											
ECB Deposit Rate[1]	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10yr Bund	3.43	3.35	4.00	3.95	3.90	3.85	3.80	3.75	3.65	3.55	3.40
BoE Bank Rate[1]	3.75	4.00[6]	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
SONIA[5]	3.73	3.95	4.10	4.23	4.23	4.23	4.23	4.23	4.23	4.23	4.23
10yr Gilt	5.39	5.25	5.70	5.65	5.60	5.55	5.50	5.45	5.35	5.25	5.10
BoJ O/N[1]	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	2.00	2.00
10yr JGB	2.95	2.80	3.15	3.14	3.13	3.11	3.10	3.09	3.08	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; [6] actual value

Sources: BMO Economics, Haver Analytics

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