

MARKET CALL

- Earlier this month (in our *Monthly FX Outlook*), we shifted forward the timetable for a peak in both 2-year Canada yields and the value of the Canadian dollar, anticipating the height of Bank of Canada rate hike expectations to come in early summer.
- We expect growth disappointments in the latter half of 2012 to push back rate hikes and take the wind out of the Canadian dollar's sails. But that's a very close call, dependent on as little as a half-point difference in real GDP growth for 2012. Should GDP growth be closer to 2½% than 2% this year, the Bank of Canada would probably go ahead with a string of three 25-bp hikes beginning in Q4.
- Even with no hikes by either the Fed or the Bank of Canada, longer term bond yields will be tough to hold at current levels, as US economic reports will not be gloomy enough to maintain the present degree of risk aversion. That said, a sharp spike in yields, or anything that took 10-year Treasuries above 2.75%, would likely be sufficient to prompt a "Twist2" sterilized buying program to pull yields down to more stimulative levels.

INTEREST & FOREIGN EXCHANGE RATES

END OF PERIOD:	2012				2013			
	25-Apr	Jun	Sep	Dec	Mar	Jun	Sep	Dec
CDA Overnight target rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
98-Day Treasury Bills	1.07	1.05	1.00	0.95	0.95	0.95	0.95	1.20
2-Year Gov't Bond	1.45	1.50	1.45	1.40	1.40	1.35	1.40	1.65
10-Year Gov't Bond	2.09	2.30	2.45	2.60	2.55	2.45	2.60	2.75
30-Year Gov't Bond	2.64	2.75	2.80	2.95	3.00	2.90	3.25	3.35
U.S. Federal Funds Rate	0.14	0.10	0.10	0.10	0.10	0.10	0.10	0.10
91-Day Treasury Bills	0.09	0.08	0.08	0.10	0.10	0.15	0.15	0.40
2-Year Gov't Note	0.28	0.40	0.45	0.40	0.35	0.30	0.40	0.85
10-Year Gov't Note	1.98	2.20	2.50	2.75	2.60	2.45	2.65	2.85
30-Year Gov't Bond	3.13	3.30	3.50	3.65	3.40	3.35	3.45	3.70
Canada - US T-Bill Spread	0.98	0.97	0.92	0.85	0.85	0.80	0.80	0.80
Canada - US 10-Year Bond Spread	0.11	0.10	-0.05	-0.15	-0.05	0.00	-0.05	-0.10
Canada Yield Curve (30-Year — 2-Year)	1.19	1.25	1.35	1.55	1.60	1.55	1.85	1.70
US Yield Curve (30-Year — 2-Year)	2.86	2.90	3.05	3.25	3.05	3.05	3.05	2.85
EXCHANGE RATES								
CADUSD	1.02	1.04	1.02	1.00	0.99	0.98	0.99	1.00
USDCAD	0.98	0.96	0.98	1.00	1.01	1.02	1.01	1.00
USDJPY	81	82	82	79	78	78	77	77
EURUSD	1.32	1.28	1.26	1.30	1.34	1.36	1.35	1.35
GBPUSD	1.61	1.56	1.55	1.58	1.62	1.66	1.66	1.66
AUDUSD	1.03	1.00	0.99	1.03	1.05	1.06	1.07	1.06
USDCHF	0.91	0.94	0.95	0.95	0.93	0.92	0.93	0.93
USDBRL	1.88	1.85	1.87	1.88	1.91	1.94	1.95	2.00
USDMXN	13.17	13.09	12.52	12.60	12.65	12.74	12.82	13.00