

MARKET CALL

- Markets were jumping the gun in looking for a Bank of Canada rate hike so early in 2010, particularly in conjunction with an elevated C\$ that poses its own drag on growth. Look for Carney to continue to emphasize his patience, and for 2-year bonds to continue to rally in reflection of a slower timetable for policy retightening.
- The rest of the yield curve is less in the central bankers' control, particularly in the US where heavy supply and a shift to riskier corporate bonds and equities has weighed heavily on Treasuries. We still expect a corrective rally if equities lose momentum on impatience over the lack of definitive news of a recovery, but one that will give way to renewed fixed income selling pressure towards year-end and into 2010.
- The US\$ would see a temporary bounce if the absence of clear recovery signs increases risk aversion for a while, and if investors pay more attention to the still-weak fundamentals in Europe, and for that matter, Canada. Longer term, the US will have to inflate its way out of its huge debt burden, and will in any event need a weaker dollar to allow exports to be supportive for growth in an era of less ebullient domestic spending.

INTEREST & FOREIGN EXCHANGE RATES

END OF PERIOD:	2009			2010		
	17-Jun	Sep	Dec	Mar	Jun	Dec
CDA Overnight target rate	0.25	0.25	0.25	0.25	0.25	0.25
98-Day Treasury Bills	0.23	0.20	0.23	0.25	0.30	0.30
2-Year Gov't Bond (1.25% 06/11)	1.29	1.05	1.15	1.15	1.20	1.60
10-Year Gov't Bond (3.75% 06/19)	3.44	3.05	3.35	3.50	3.70	3.95
30-Year Gov't Bond (5% 06/37)	3.90	3.70	4.00	4.10	4.25	4.35
U.S. Federal Funds Rate	0.25	0.25	0.25	0.25	0.25	0.25
91-Day Treasury Bills	0.18	0.10	0.12	0.15	0.20	0.25
2-Year Gov't Note (0.88% 05/11)	1.17	1.00	1.00	1.20	1.30	1.65
10-Year Gov't Note (3.13% 05/19)	3.68	3.35	3.65	3.85	4.05	4.35
30-Year Gov't Bond (4.25% 05/39)	4.51	4.35	4.55	4.70	4.95	5.00
Canada - US T-Bill Spread	0.05	0.10	0.11	0.10	0.10	0.05
Canada - US 10-Year Bond Spread	-0.24	-0.30	-0.30	-0.35	-0.35	-0.40
Canada Yield Curve (30-Year — 2-Year)	2.61	2.65	2.85	2.95	3.05	2.75
US Yield Curve (30-Year — 2-Year)	3.34	3.35	3.55	3.50	3.65	3.35
EXCHANGE RATES						
— (US¢/C\$)	88.3	84.0	87.0	87.7	90.9	94.3
— (C\$/US\$)	1.132	1.190	1.150	1.140	1.100	1.060
— (Yen/US\$)	96	101	97	95	90	87
— (US\$/euro)	1.39	1.32	1.35	1.35	1.37	1.40
— (US\$/pound)	1.64	1.53	1.57	1.59	1.62	1.67
— (US¢/A\$)	79.4	73.0	77.0	80.0	83.0	88.0