

Rates Scenario for April 9, 2026

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Forecast Summary

(avg.)	Actual	Forecasts					2026		2027			
	2026	2026	2026	2026	2026	2026	2026	2027	2027	2027	2027	2027
	Mar	Apr	May	Jun	Jul	Q3	Q4	Q1	Q2	Q3	Q4	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	3.44	3.45	3.45	3.40	3.40	3.35	3.25	3.30	3.35	3.40	3.45	3.45
Fed funds ¹	3.63	3.63	3.63	3.63	3.63	3.38	3.13	3.13	3.13	3.13	3.13	3.13
10-yr Treasuries	4.25	4.30	4.25	4.20	4.20	4.15	4.05	4.05	4.05	4.10	4.15	4.15
C\$ per US\$	1.37	1.39	1.38	1.38	1.37	1.36	1.34	1.33	1.32	1.31	1.30	1.30
US\$/€	1.16	1.17	1.17	1.17	1.17	1.17	1.18	1.19	1.20	1.21	1.22	1.22
US\$/£	1.33	1.34	1.34	1.34	1.35	1.35	1.36	1.36	1.37	1.37	1.38	1.38
¥/US\$	159	158	158	157	157	157	155	153	151	148	146	146

¹ end of period

Sources: BMO Economics, Haver Analytics

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Canada-U.S. Rates

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Petroleum's Vagaries Vexing Policymakers

Central banks are contending with an oil price shock triggered by the Iranian conflict. Despite packing a stagflation punch, policymakers are more focused on the consequent risks for faster inflation than those for slower growth, particularly with 2022's inflation surge still fresh in their memories. The conflict's resolution and oil price legacy are uncertain. Our working assumption is that vessels will soon ply the Strait of Hormuz again, but oil prices will continue to trade above pre-conflict levels. As the impact of higher oil costs shows up in national price levels, central banks should feel some pressure to raise policy rates to mitigate the upside inflation risks. Some could succumb to the pressure, but probably not the Federal Reserve or the Bank of Canada.

Federal Reserve: The FOMC is expected to keep policy rates unchanged on April 29, with the target range for the fed funds rate at 3.50%-to-3.75%. This will mark the third consecutive hold after three straight quarter-point cuts during the final three confabs of 2025. A hold heralded the new year against the background of a stabilizing labour market and with policy rates "within a range of plausible estimates of neutral." It initially afforded the Fed more time to better assess tariffs' ultimate inflation impact. Then, the spike in oil prices that heralded last month pumped the risks of both faster inflation and slower growth, making a more compelling case for pausing.

In last month's post-FOMC presser (March 18), Chair Powell was asked whether the Fed would look through the inflation tied to higher oil prices—despite missing the inflation target for the past five years. His response was profound, first referring to tariffs. "The thing that's really important that we see this year is progress on inflation through a reduction in goods inflation, as the one-time effects [of tariffs]... go through the economy...The question of whether we look through the energy inflation doesn't really arise until we have kind of checked that box." Turning to oil prices, Powell said it is "kind of standard learning that you look through energy shocks, but that's always been dependent on inflation expectations remaining well anchored, and I think now it's also dependent now on what you mentioned [in your question], which is that broader context of five years now of inflation above target."

So, it appears that the Fed will be interpreting the inevitable increase in total inflation due to higher oil prices in the context of not having hit the 2% target for the past five years and still waiting for progress on the core goods inflation front. The latest (February) readings here were 1.0% y/y for the CPI and 2.3% y/y for the PCEPI, with the latter running uncharacteristically hotter than the former. Both were running in negative territory before new tariffs arrived, and before pandemic-related pressures propelled them to multi-decade highs (12.3% y/y and 7.7%, respectively). Meanwhile, the labour market continued to stabilize in March, affording more policy pause time. The growth in payrolls averaged a 'sideways' 68k in the latest three months (the spot figure was a 15-month high 178k) with the unemployment rate at 4.3% (oscillating between 4.3% and 4.4% for the past four months).

In the coming months, the data on inflation and inflation expectations will be critically important (and we do not expect them to be problematic). We still see a couple of quarter-point rate cuts by the Fed as it acts to align the fed funds target range with the FOMC's median projection for the neutral rate (3.125%) and lessen the downside risk for the labour market. The timing here is now more uncertain than before (we have pencilled in September and December) with the net risk the Fed could cut later or less.

Bank of Canada: The BoC is also expected to keep the policy rate unchanged on April 29, with the target for the overnight rate at 2.25% (the bottom of its 2.25%-to-3.25% estimated range for neutral). This will mark the fourth consecutive hold, with a new Monetary Policy Report (MPR) released in tow.

In last month's post-meeting presser (March 18), Governor Macklem was direct on how the Bank was approaching the escalating risks. *"With inflation close to target and the economy in excess supply, the risk that higher energy prices quickly spread to the prices of other goods and services looks contained. But the longer this conflict lasts and the wider it gets, the bigger the risks. Governing Council will look through the war's immediate impact on inflation but if energy prices stay high, we will not let their effects broaden and become persistent inflation."*

Macklem also said: *"Relative to our January forecast, risks to economic growth are tilted to the downside. Near-term growth looks weaker than expected and the review of the Canada-United States-Mexico Agreement is a big unknown. At the same time, risks to inflation are tilted to the upside, because of the sharp increase in energy prices."* The Bank's economic projections will be updated in the upcoming MPR, and being April, we will also get the latest annual estimates of potential growth and the neutral policy rate.

The Bank is not only dealing with the stagflation risks posed by higher energy prices, but also the growth risks posed by structural changes in the economy catalyzed by the vicissitudes of U.S. trade policy. Indeed, the latter is the reason the policy rate is at the lower bound of the neutral range, providing as much stimulus as possible to support the structural changes without becoming unequivocally net accommodative. And with the USMCA review due by July 1 and new tariffs likely looming, we believe the Bank has a long rate hike fuse when it comes to the upside risks posed by higher energy prices. The current policy hold could last a long time, with the Bank asserting that *"as the outlook evolves, we stand ready to respond as needed."*

Bond yields: Just before the Iranian conflict began, 10-year Treasury yields recorded a rare daily close below 4.00% (3.97% on February 27). As the conflict unfolded, yields increased by as much as 47 bps (on March 27) before dropping a net 15 bps in the past 1½ weeks, to under 4.30%. Although the jump in oil prices has pumped expected inflation (TIPS break-evens are up a net 8 bps), most of the net selloff reflects increased inflation risk and a less constructive (and riskier) profile expected for Fed policy rates.

Given the uncertainty surrounding the conflict's resolution and the prospects for oil prices, the bond market's all-in inflation and Fed expectations are going to remain fluid, suggesting that we have not yet seen the high in yields. The Iranian conflict getting adequately resolved should sound the all-clear horn on even higher yields. However, revisiting the pre-conflict lows in yields is likely a larger challenge now due to lingering inflation risks (fuelled by persistently higher oil prices) and related Fed policy moves (rate hikes are unlikely but nevertheless are being discussed).

Looking ahead, 50 bps worth of rate cuts should exert some downward pressure on yields. However, the monthly average will likely remain at least at 4.00%, short of mounting prospects for chunky Fed cuts (>25 bps) or escalating risks of recession. Meanwhile, deteriorating fiscal fundamentals (for which investors are demanding higher yields to compensate) should also act to keep yields north of 4.00%. Deficits, debt, and interest payments were already on unsustainable paths before the One Big Beautiful Bill Act (OBBBA) applied further strain. Now, net tariff revenues are coming up short (partly owing to IEEPA tariff refunds) and spending is being boosted by additional defence outlays. (Investors are also concerned about the erosion of both Fed independence and U.S. dollar dominance.)

Elsewhere, 10-year Canada-U.S. bond yield spreads averaged -81 bps last month, close to February's -84 bps which is also where this month is averaging so far. Despite the relative stability, we see spreads moving less negative, particularly as Fed rate cuts resume with the BoC standing pat. The trend to the eventual low -60s range should be a bumpy one, with Canada's own fiscal deterioration on both the federal and provincial fronts prodding some volatility. That said, for the oil-producing provinces (Alberta, Saskatchewan, and Newfoundland & Labrador), their fiscal pictures should be improving significantly.

U.S. dollar: The greenback gained ground as the Iranian conflict unfolded, assuming its traditional safe-haven role amid escalating geopolitical and global economic risks. The dollar was also bolstered by the prospects for Fed policy rates remaining unchanged for longer owing to the inflation risks posed by higher oil prices. According to the Wall Street Journal's index, the currency appreciated 2.7% by March 30 versus the pre-conflict close on February 27. Since then, the greenback has lost about 1½%. Unless the Iranian situation re-intensifies and the above-mentioned array of risks re-escalate, we've probably seen the peak in the big dollar. But if the conflict continues to move in the direction of resolution, and the array of risks continues to subside, the currency will continue to give up its recent gains.

Once Fed rate cuts start being considered by the market again (currently off the radar) and are realized, the U.S. dollar should be on a (modest) depreciating trend. For 2026 as a whole, we see the Fed's trade-weighted dollar index against the majors averaging down around 2% y/y by December.

Canadian dollar: Higher oil prices have not provided lasting support for the loonie, amid escalating geopolitical and global economy risks along with fading Fed rate cut prospects that boosted the greenback. Even the market continuing to price-in Bank of Canada rate hikes failed to provide lasting support. From the close on February 27, the Canadian dollar has weakened a net 1.5% to around C\$1.385 (US\$0.722).

As the greenback's boost from the Iranian conflict ebbs and Fed rate cuts resume (with the Bank on a long pause), Canadian dollar prospects should improve. We look for the CAD to follow an appreciating trend to C\$1.33 (US\$0.752), or around 3½% over the year, by the end of 2026. That is better than the pack of majors, as the Canadian economy rebounds after being hit disproportionately by U.S. trade policy. And trade policy is a key risk for the Canadian dollar (and the broader economy), with the review of the USMCA scheduled by July 1. Our working assumption is that the agreement will not be renewed and neither will any party give its six months' notice to exit. Instead, we expect the sequence of annual negotiation intervals to commence that could last for at least the next two or three years (the USMCA is scheduled to end by 2036 if not renewed). Meantime, while new Section 122 10% tariffs applied to USMCA noncompliant goods only, new national security or sectoral tariffs loom (Section 232) and Canada has been mentioned in the Section 301 investigations into unfair trade practices. The weight of U.S. trade policy on the loonie could mount quickly.

Overseas

Jennifer Lee, Senior Economist

Central bank decisions are rarely easy. On the one hand, they have their mandates—some dual—that involve keeping inflation at a certain target and, sometimes, maximum employment. In the latest case, the upcoming meetings for the likes of the BoJ, the BoE and the ECB will be exceedingly difficult, moreso for the latter two. At least the **RBA**—still quite hawkish—can wait until May. The ceasefire is helping what we believe will be a hold-tight stance by most. Note that the **RBNZ** stayed on hold at 2.25% soon after news of the ceasefire broke, and it remained hawkish, warning that *"inflation will be higher than expected in the short term"*. Governor Breman added later that if the medium-term trends pick up, *"we will act decisively and that means rate hikes."*

For the **BoJ**, persistent inflation (core CPI has been above target for 18 months in a row), record-high gasoline prices, rising household incomes, and a weak currency should be enough to prompt an April rate hike. The Board discussed the need for more hikes at the March meeting, even as it stayed on hold that day given the war in the Middle East. One member fretted about the *"risk the BOJ may unintentionally fall behind the curve"*, while another warned that absent signs of a deteriorating economy, *"the bank will need to raise the policy interest rate without hesitation"*.

The **ECB** is in a tough spot. Before the war, the Governing Council was proudly trumpeting at the February 5 meeting about how it has done its job and that *"inflation is in a good place"*. In fact, Finland's Olli Rehn (a hawk) mused the day after that there was a real risk of lower-than-expected inflation. Now, the opposite holds true: consider how much energy prices have soared and that Europe still imports about 90% of its energy... again, even with the ceasefire. Belgium's Pierre Wunsch warned that if the Iran War was still going on in June, *"I think we're going to have to hike. I don't want to exclude a hike in April."* And, Bulgaria's Dimitar Radev was cautious, pointing out that the longer the war, the greater the likelihood that the shocks spread. *"What starts with energy can gradually spread through the wider economy."* President Lagarde is also worried about the damage to the energy infrastructure, stating that *"too much has already been damaged and there is no way that it can be restored in a matter of months"*. Although Brent has not reached the \$150 price that the ECB had sketched out in its severe scenario, it is above its baseline projections, even after the rally following the ceasefire news. We continue to see the ECB staying the course at the April 30 meeting, given the uncertainty, but if the war and tensions continue to flare over the remainder of the month, it is very conceivable that the central bank will take a more restrictive stance in order to control inflation expectations. After all, this central bank hiked rates in July 2008 because of elevated commodity prices and twice in 2011 despite the onset of the European debt crisis. They are not strangers to hiking policy at inopportune times.

The **BoE** is also in a tough spot. After its hawkish announcement on March 19, at which time every policymaker voted to keep rates unchanged at 3.75% and made reference to the potential to tighten, market expectations for rate hikes soared. This was enough for Governor Bailey to warn on more than one occasion that markets were *"getting ahead of themselves"*. Yes, the Bank's remit is to maintain price stability but *"we have to do so in a way that ... causes the least damage in terms of activity in the economy and in terms of jobs."* Not helping is the fact that the composite PMI has been below the 50 mark for nearly a full year. And, the OECD warned in mid-March that the U.K. would take the biggest hit from the war among the major economies. We look for the BoE to stay on hold in April and continue to keep an eye on inflation expectations.

Foreign Exchange Forecasts

(local currency per US\$: avg.)	Actual 2026 Mar	Forecasts 2026					2026		2027			
		Apr	May	Jun	Jul	Q3	Q4	Q1	Q2	Q3	Q4	
Canadian Dollar												
C\$ per US\$	1.37	1.39	1.38	1.38	1.37	1.36	1.34	1.33	1.32	1.31	1.30	
US\$ per C\$ ¹	0.729	0.719	0.723	0.727	0.731	0.734	0.746	0.753	0.758	0.763	0.768	
Trade-weighted	114.3	112.3	112.8	113.3	113.8	114.3	115.9	116.6	116.9	117.2	117.6	
U.S. Dollar												
Trade-weighted ²	119.9	119.4	119.1	118.9	118.7	118.4	117.7	117.0	116.2	115.5	114.7	
European Currencies												
Euro ¹	1.16	1.17	1.17	1.17	1.17	1.17	1.18	1.19	1.20	1.21	1.22	
Danish Krone	6.47	6.40	6.40	6.40	6.40	6.35	6.35	6.30	6.25	6.20	6.15	
Norwegian Krone	9.66	9.60	9.60	9.55	9.55	9.55	9.50	9.40	9.35	9.25	9.20	
Swedish Krona	9.32	9.35	9.30	9.30	9.30	9.25	9.25	9.15	9.10	9.00	8.95	
Swiss Franc	0.79	0.79	0.79	0.79	0.78	0.78	0.77	0.77	0.76	0.76	0.75	
U.K. Pound ¹	1.33	1.34	1.34	1.34	1.35	1.35	1.36	1.36	1.37	1.37	1.38	
Asian Currencies												
Chinese Yuan	6.89	6.84	6.84	6.83	6.83	6.82	6.81	6.79	6.78	6.77	6.75	
Japanese Yen	159	158	158	157	157	157	155	153	151	148	146	
Korean Won	1,491	1,485	1,485	1,485	1,480	1,480	1,475	1,475	1,470	1,470	1,465	
Indian Rupee	92.8	92.4	92.3	92.3	92.2	92.2	92.0	91.8	91.7	91.5	91.4	
Singapore Dollar	1.28	1.28	1.28	1.28	1.28	1.27	1.27	1.27	1.27	1.26	1.26	
Malaysian Ringgit	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	
Thai Baht	32.3	32.1	32.1	32.0	32.0	32.0	31.9	31.8	31.7	31.7	31.6	
Philippine Peso	59.6	59.7	59.6	59.5	59.5	59.4	59.3	59.1	59.0	58.9	58.8	
Taiwan Dollar	31.9	31.8	31.7	31.7	31.7	31.7	31.6	31.6	31.5	31.5	31.4	
Indonesian Rupiah	16,920	16,920	16,920	16,925	16,925	16,925	16,930	16,910	16,875	16,845	16,815	
Other Currencies												
Australian Dollar ¹	0.702	0.702	0.704	0.707	0.709	0.711	0.718	0.722	0.724	0.727	0.729	
New Zealand Dollar ¹	0.585	0.581	0.583	0.585	0.588	0.590	0.598	0.603	0.606	0.610	0.614	
Mexican Peso	17.77	17.50	17.45	17.45	17.40	17.40	17.30	17.15	16.95	16.75	16.55	
Brazilian Real	5.23	5.10	5.10	5.10	5.05	5.05	5.00	5.00	4.95	4.90	4.85	
South African Rand	16.7	16.5	16.4	16.4	16.4	16.4	16.3	16.2	16.0	15.9	15.8	
Cross Rates												
Versus Canadian Dollar												
Euro (C\$/€)	1.59	1.62	1.61	1.61	1.60	1.60	1.58	1.58	1.58	1.58	1.59	
U.K. Pound (C\$/£)	1.83	1.86	1.85	1.85	1.84	1.84	1.82	1.81	1.81	1.80	1.80	
Japanese Yen (¥/C\$)	116	114	114	114	115	115	116	116	114	113	112	
Australian Dollar (C\$/A\$)	0.96	0.98	0.97	0.97	0.97	0.97	0.96	0.96	0.96	0.95	0.95	
Versus Euro												
U.K. Pound (£/€)	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.88	0.88	
Japanese Yen (¥/€)	183	184	184	184	184	184	183	182	180	179	177	

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

Sources: BMO Economics, Haver Analytics

Interest Rate Forecasts

(% : avg.)	Actual	Forecasts					2026		2027			
	2026 Mar	2026 Apr	May	Jun	Jul	Q3	Q4	Q1	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	2.28	2.26	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	
3-month bills	2.25	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	
6-month	2.32	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	
1-year	2.50	2.60	2.60	2.60	2.55	2.55	2.50	2.45	2.45	2.45	2.45	
2-year bonds	2.77	2.80	2.80	2.75	2.70	2.65	2.55	2.50	2.50	2.50	2.50	
3-year	2.81	2.90	2.85	2.85	2.80	2.80	2.70	2.70	2.70	2.75	2.75	
5-year	3.02	3.05	3.05	3.00	3.00	2.95	2.90	2.90	2.90	2.95	3.00	
7-year	3.22	3.25	3.25	3.20	3.20	3.15	3.10	3.10	3.15	3.20	3.25	
10-year	3.44	3.45	3.45	3.40	3.40	3.35	3.25	3.30	3.35	3.40	3.45	
30-year	3.87	3.90	3.90	3.85	3.80	3.80	3.70	3.70	3.80	3.85	3.90	
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)	3.63	3.63	3.63	3.63	3.63	3.38	3.13	3.13	3.13	3.13	3.13	
Fed funds target	3.63	3.63	3.63	3.63	3.63	3.59	3.32	3.13	3.13	3.13	3.13	
EFFR ³	3.64	3.64	3.64	3.64	3.64	3.60	3.32	3.13	3.13	3.13	3.13	
SOFR ⁴	3.65	3.63	3.62	3.62	3.62	3.58	3.31	3.12	3.12	3.12	3.12	
3-month bills	3.72	3.70	3.70	3.70	3.70	3.65	3.30	3.05	3.05	3.05	3.05	
6-month	3.72	3.75	3.75	3.75	3.75	3.70	3.35	3.15	3.15	3.15	3.15	
1-year	3.67	3.70	3.65	3.65	3.60	3.55	3.30	3.15	3.15	3.15	3.20	
2-year notes	3.71	3.80	3.70	3.65	3.55	3.45	3.20	3.15	3.20	3.20	3.25	
3-year	3.73	3.80	3.75	3.70	3.65	3.55	3.40	3.35	3.40	3.45	3.45	
5-year	3.85	3.95	3.90	3.85	3.80	3.75	3.60	3.60	3.60	3.65	3.70	
7-year	4.04	4.10	4.05	4.05	4.00	3.95	3.80	3.80	3.85	3.90	3.90	
10-year	4.25	4.30	4.25	4.20	4.20	4.15	4.05	4.05	4.05	4.10	4.15	
30-year bonds	4.85	4.90	4.85	4.80	4.80	4.75	4.65	4.60	4.65	4.70	4.75	
Prime rate	6.75	6.75	6.75	6.75	6.75	6.71	6.44	6.25	6.25	6.25	6.25	
Other G7												
ECB Deposit Rate ¹	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	
10yr Bund	2.93	2.95	2.95	2.95	2.95	2.95	3.00	2.95	2.90	2.85	2.80	
BoE Bank Rate ¹	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	
SONIA ⁵	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	3.73	
10yr Gilt	4.75	4.70	4.70	4.70	4.70	4.70	4.70	4.65	4.60	4.55	4.50	
BoJ O/N ¹	0.75	1.00	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	
10yr JGB	2.24	2.23	2.24	2.25	2.26	2.26	2.29	2.32	2.34	2.37	2.39	

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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