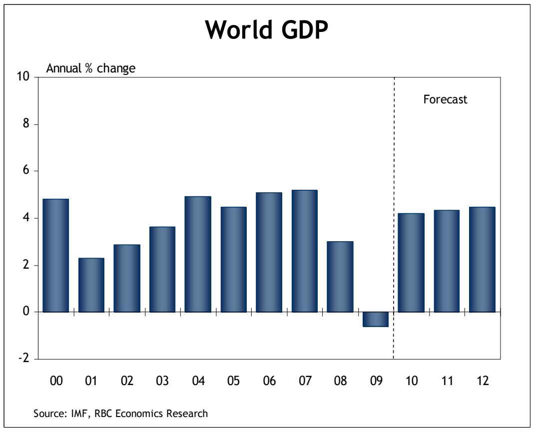
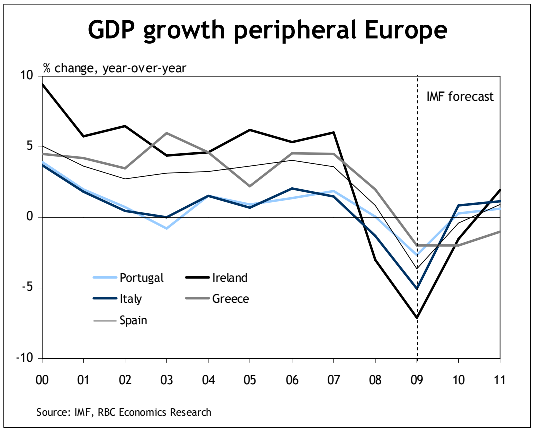
ECONOMIC AND FINANCIAL MARKET OUTLOOK

June 2010





Craig Wright
Chief Economist
416-974-7457
craig.wright@rbc.com

Paul Ferley
Assistant Chief Economist
416-974-7231
paul.ferley@rbc.com

Dawn Desjardins
Assistant Chief Economist
416-974-6919
dawn.desjardins@rbc.com

Nathan Janzen
Economist
416-974-0579
nathan.janzen@rbc.com

Welcome to the global recovery

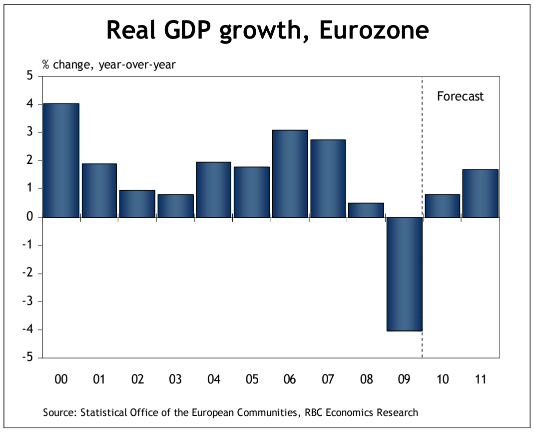
- Global recovery on track despite uncertainty associated with the European debt crisis.
- World growth forecasts revised higher for 2010.
- Central banks monitoring both domestic and international conditions.
- Elevated unemployment rate to keep Fed on hold until late in the year.
- The Bank of Canada started to remove policy stimulus in April and boosted the policy rate in June.
- Canada's economy grew at the fastest pace in more than a decade during the first quarter.
- The U.S. economy geared down although still posted a decent gain in the first quarter backed by an acceleration in consumer spending growth.
- Canada's economy is forecasted to grow by 3.6% in 2010 and the U.S. economy by 3.1%.
- Canada's core inflation rate will remain around 2% while core prices in the US average 1.1% in 2010.
- Bank of Canada to continue to raise overnight rate; Federal Reserve to wait until late this year.

Confidence that the global economy was entering a cyclical upswing took a body-blow in April and May from rising anxiety about Europe's sovereign debt crisis. Reports of much larger than expected deficits and debt rating downgrades shook investor confidence precipitating a flow of funds into safe-haven assets. The U.S. dollar gained 4.3% on a trade-weighted basis from mid-April and bond yields dipped back down. Despite all the volatility in financial markets, economic reports have generally come in on the strong side, and forecasts for global growth were revised higher. To be sure, the International Monetary Fund (IMF) boosted its 2010 real GDP forecast just before the negative news on Europe's debt crisis broke. Still, the forecast incorporated the IMF's assumption that Greece's economy would remain in recession in 2010 and 2011, and that other peripheral Eurozone countries would experience very mild recoveries.

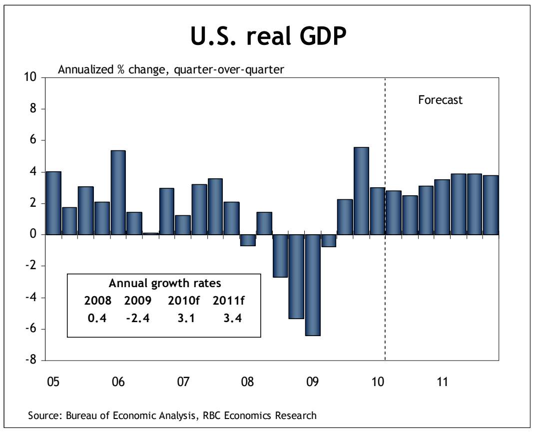
Timing is everything

To safeguard the status of the European Union, its currency and, ultimately, the recovery in the global economy, the European Union and IMF rolled out a substantial bailout package made up of €750 billion in loan guarantees, asset purchases and liquidity provisions. This went some way to allay concerns about the outlook for the region, but the question is whether it will be sustained.

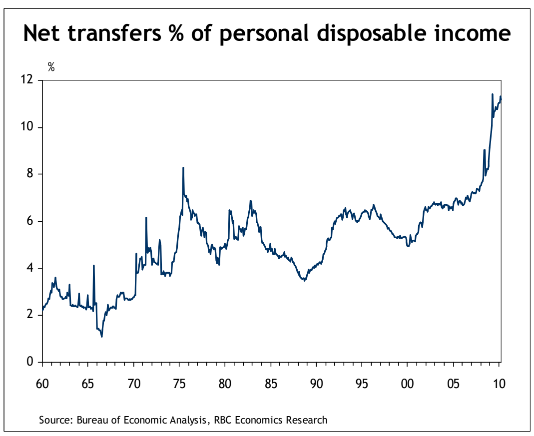
In the near term, the bailout lowers the odds of default by the most profligate spending nations. In the longer run, however, concerns about the ability of these debt-laden countries to meet their deficit and debt-reducing targets, and the potential knock-on effects for the regional economies are keeping investors cautious. For the region's economy, the prospect that substantive fiscal tightening will keep the European Central Bank (ECB) from raising interest rates



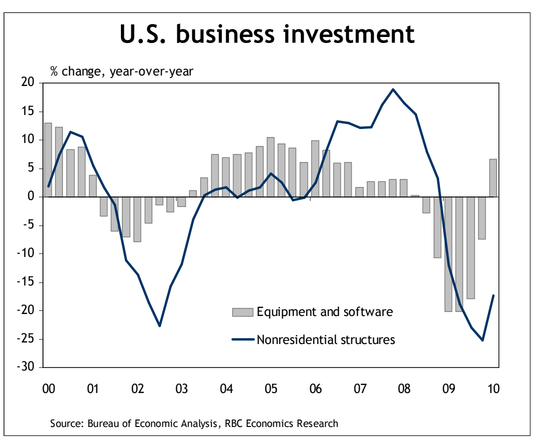
Source: Statistical Office of the European Communities, RBC Economics Research



Source: Bureau of Economic Analysis, RBC Economics Research



Source: Bureau of Economic Analysis, RBC Economics Research



Source: Bureau of Economic Analysis, RBC Economics Research

that will provide offsetting support to growth, especially in the core nations that will not need to undergo a significant fiscal retrenchment. At the same time, the weaker euro will be a boon for the key exporting members, like Germany, and augurs well for their economic recovery to continue. Against this myriad of opposing forces, the outlook for the Eurozone economy remains one of cautious optimism, and we maintain our Eurozone GDP growth forecasts for 2010 and 2011 at 0.8% and 1.7% respectively.

The U.S. recovery is alright!

Forecasts for the U.S. economy have also been edging up in part due to the stronger than expected increase in first-quarter GDP growth. The economy expanded at a 3.0% annualized pace in the first three months of 2010, surprisingly anchored by a sharp increase in consumer spending. Another solid quarter of business investment in equipment and software as well as a small build in inventories also supported the quarterly gain. We revised our forecast for 2010 GDP growth up slightly to 3.1% from 2.9%, although it is likely that the first quarter of 2010 will prove to be the strongest quarter this year. Consumer spending is expected to remain positive given the improvement in labour market conditions. The April and May employment reports showed strong monthly gains although most of May's rise was due to the hiring of temporary census workers. Importantly, excluding census workers, payrolls for these two most recent months increased at an average 122,000 per month, more than double the pace of increase in the first quarter, and consistent with a firming in labour market conditions. Even with the gain in employment, the unemployment rate remained elevated at 9.7%, as discouraged workers returned to the labour market.

A long road ahead

The staggering cut to payrolls during the recession sets up for a long period of elevated unemployment rates for the U.S. economy. Even with the increases recorded so far this year, the number of unemployed is 7.3 million higher than prior to the economic downturn. The pickup in economic growth since the middle of last year has dented the output gap (actual versus potential output), but tremendous slack is keeping the unemployment rate historically high. Incomes have suffered with the recent, moderate recovery reflecting rising transfers, which increasingly account for a larger proportion of household's intake. The drop in household debt outstanding has also reduced the funds available for consumption activity with the result being that consumption spending will be weaker than in past recovery periods.

Businesses cautiously optimistic

The recession saw a sharp retrenchment by U.S. corporations resulting in a substantial decline in the economy's capital stock and a fall in inventory-to-sales ratios to below average levels. The cycle turned in the fourth quarter of last year when the pace of inventory liquidation slowed enough to add 3.8 percentage points to the quarterly growth rate and a double-digit rise in spending on equipment and software added another 1.1 percentage points. The support from these two GDP components continued in early 2010 and will serve as drivers of growth during the forecast horizon. The sharp recovery in corporate profits, less-stringent lending conditions and improved confidence that the global recession had passed spurred the rise in investment spending. Commercial real estate markets remained depressed, however, because low levels of employment and substantial idled resources limit demand for new space. The gradual increase in employment levels and a steady rise in domestic demand will likely see businesses increase real estate investment in 2011.

U.S. housing market - stuck in neutral

The data on housing has been volatile with the six-month average trend rate of sales flattening out in early 2010 following a sustained pick up from April of last year. The volatility, in part, reflects buyers' reactions to the completion of the government's homebuyers' tax credit program that was initially slated to end in November but was extended to the end of April 2010. The trend sales rate in the six months ended April showed a 16.0% increase from its recent low. Prices are no longer falling at a sharp pace although increases remain limited given the persistent oversupply of homes available for sale. Supply continues to come onto the market as the inventory of foreclosed properties hit an all-time high in early 2010. Furthermore, more foreclosures look likely given that the number of seriously delinquent mortgages rose again in the first quarter. Despite the lacklustre activity levels, homebuilders' sentiment improved in April and May, and housing starts activity is up, albeit from severely depressed levels. This sector is unlikely to do much for growth in 2010, though the risks are on the upside, should the economy's momentum build more than we expect.

High unemployment + low inflation = Fed on hold

Unlike the defined inflation-targeting regime at the Bank of Canada, the U.S. Federal Reserve's mandate is twofold: to secure both price stability and full employment. On the first front, the Fed has little to worry about because the deep and prolonged recession generated enormous slack in the economy that is keeping price pressures under control. However, the unfortunate companion to this is a very high unemployment rate, which means that the Fed's policy will focus on supporting the expansion and returning the economy to full employment. With this in mind, we see little scope for the Fed to reduce policy stimulus directly through higher interest rates in the near term. In April, the Fed acknowledged that the recovery was becoming more self-sustaining with support coming from domestic demand as reliance on fiscal stimulus and the turn in the inventory cycle waned.

Fed to maintain Fed funds rate for now

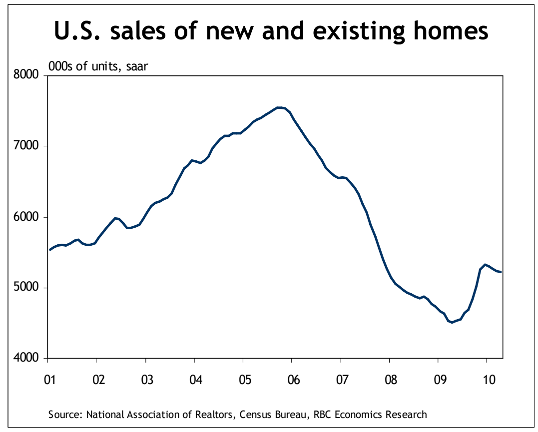
We agree with the Fed's assessment that the U.S. recovery is self-sustaining and forecast that real GDP growth will accelerate in 2011 to average 3.4%. This will not eliminate the output gap, although it will likely cause it to be halved from about 6% at the start of this year, resulting in the rising demand for labour and a slow, yet steady, decline in the unemployment rate. This base case scenario is in line with the Fed's view as indicated in their April update. Against this backdrop, we see little need for the Fed to hold the Fed funds rate at today's 'emergency' level although policy will likely be kept on the stimulative side of neutral until labour market conditions are strong enough that the unemployment rate is closer to its long-term average of 5.8%.

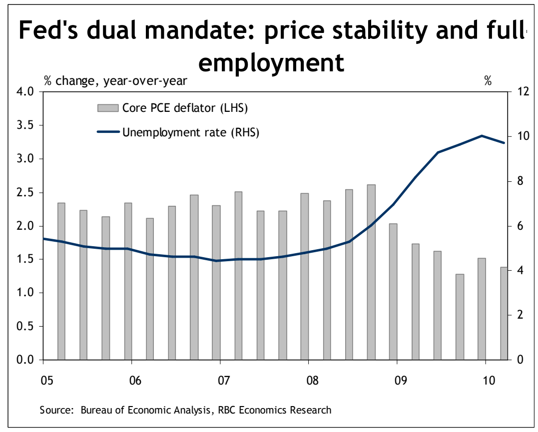
Bond yields to remain historically low

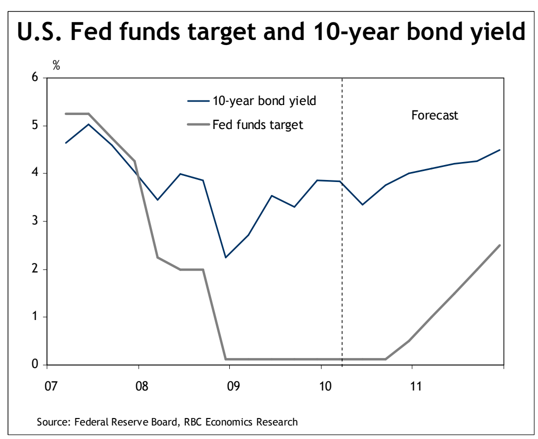
On balance, our base case remains that the Fed will only initialize its rate hiking program at the end of this year with one 25-basis point increase likely in December. Government bond yields will likely remain low as well, initially due to safe-haven buying of U.S. Treasuries as investors determine the likely outcome of Europe's sovereign debt crisis. Resolution of these concerns will likely see yields start to creep higher from today's extreme lows although rates will remain low relative to historical levels.

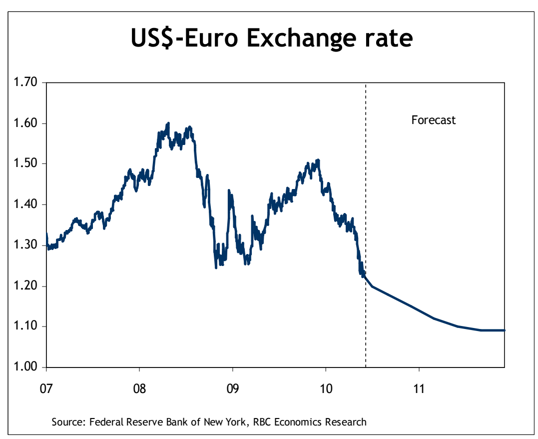
U.S. dollar rally to continue

The uncertainty in financial markets has produced a run to U.S. dollars, with the euro losing 8.5% since the end of the first quarter while the Canadian dollar and pound sterling lost 2.8% and 2.2%, respectively. The prospect that the recovery in the Eurozone will remain much slower than in the United States, as debt-laden governments implement fiscal austerity programs, will likely keep the euro under downward pressure and the ECB from raising policy rates. In the US, rate hikes are likely to come late in the year while the Bank of Canada is already engaged in a reduction in policy stimulus. Thus, we forecast that

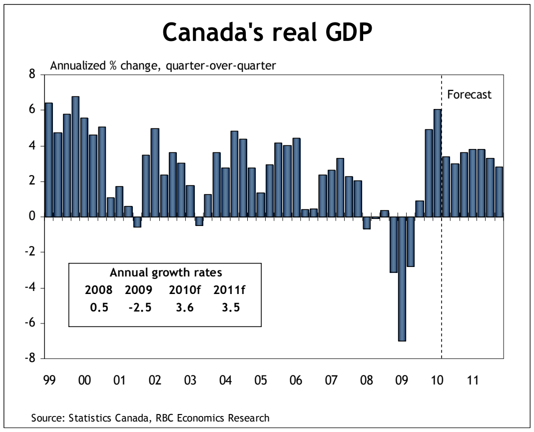


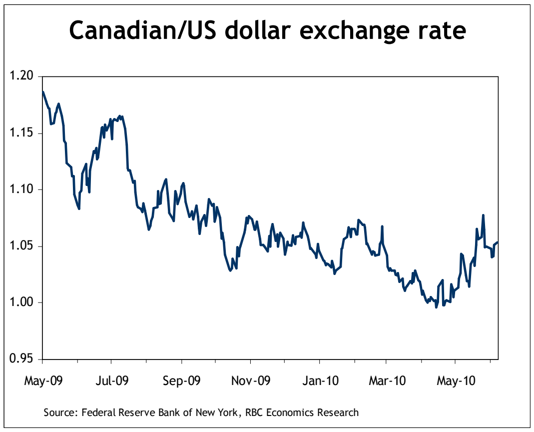


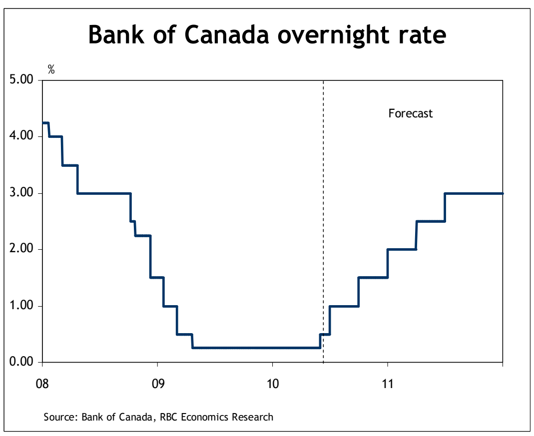




the U.S. dollar will gain compared to the euro in the second half of the year while mildly underperforming Canada's currency.







Canada - coming into its own!

Canada's economy did not skip a beat coming into 2010, with real GDP growth accelerating to an 6.1% annualized pace following a solid gain in the fourth quarter. A surge in hiring in April and May points to the recovery continuing in the second quarter as well. Against the backdrop of a steady hum of stronger than expected data reports, the need for emergency-low interest rates was greatly diminished. Nevertheless, uncertainty about the fate of European sovereign debt saw investors shift into safe-haven assets resulting in volatility in financial markets, a sharp cut in equity and commodity prices, and gyrations in currency markets. In turn, these declines boosted downside risks to the global economic outlook and led the Bank of Canada to sound a cautious note about the timing of further interest rate hikes.

The incredibly volatile Canadian dollar

The roller coaster ride for the Canadian dollar started in May with the currency losing 3.6% in the first week as investors stomped back into safe-haven assets on worries about contagion from Greece's fiscal meltdown. The announcement of a bailout package shored up risk appetite with the Canadian dollar recouping most of its losses. By week three, however, the risk-aversion trade was back on, and Canada's dollar lost a cumulative 4.1% in the month. Fundamental factors remain favourable suggesting that once the European debt crisis subsides, Canada's dollar will regain ground. Our forecast calls for the Canadian dollar to move close to U.S. dollar parity by the fall before depreciating modestly through 2011 as the Fed raises interest rates. Despite this modest depreciation, the loonie is expected to remain historically high by the end of next year at 93 U.S. cents. This is consistent with our view of natural resource commodity prices continuing to be supported from demand from emerging economies.

Forecasts going Up!

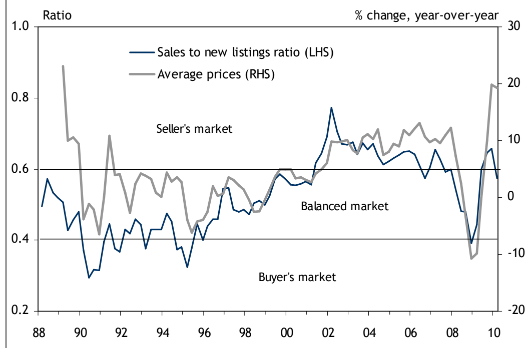
The strong gain in the first quarter saw forecasters revise up their estimates for 2010 with the consensus now looking for a 3.4% rise, which is roughly in line with RBC's call for a 3.6% increase. Unlike in the US, where inflation projections have been consistently revised lower, forecasts for the average increase in Canada's CPI have been on the rise. To some degree, the factors that led to these forecast upgrades will prove temporary such as the implementation of the harmonised sales tax (HST) in Ontario and BC on July 1. More importantly, core prices, which exclude a number of volatile series along with changes to taxes, have been running hotter than expected. The Bank of Canada's core measure averaged 1.9% in the first four months of 2010, just a shade under the 2% target.

The combination of stronger economic growth and higher than forecast core inflation saw the Bank of Canada start the process of unwinding its extraordinarily stimulative policy stance in mid-April with the removal of the commitment to a 0.25% policy rate until the end of the second quarter. On June 1, the Bank took another step and raised the overnight rate by 25 basis points to a still very stimulative 0.50%. Even though Canada's economy has yet to show signs of buckling under the strain in financial markets, the Bank cautioned that the timing of the unwinding of policy stimulus will be contingent on both domestic and international factors. That being said, the lessening need for extremely low interest rates suggests that rates will continue to rise during the course of the second half of the year and in 2011.

Driving the Canadian economy

Final domestic demand remains the touchstone for Canadian growth backed by consumer, housing and government spending. Businesses have yet to get into action although there are signs that a rebuilding of inventories is underway following the sharp reduction during the recession. The strength of the Canadian dollar cuts two ways on the outlook for trade – dampening export demand and bolstering imports. On the export side, the saving grace is that Canada mainly sells commodities to external markets and demand remains firm. On the import side, the strengthening in the currency made it increasingly affordable for businesses to buy machinery and equipment. On balance, net exports are unlikely to make a contribution to the economy's growth rate in 2010 although we expect an improvement in 2011. The rebuilding of inventories, on the other hand, is likely to add about one-half of a percentage point to growth in both 2010 and 2011.

Canada's housing market



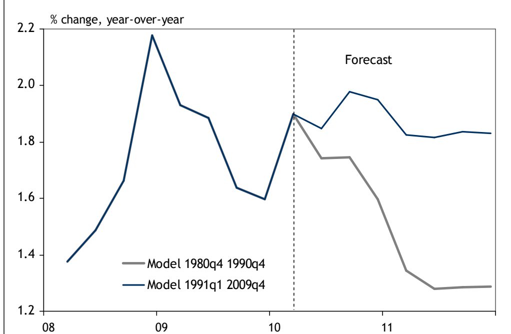
Source: CREA, RBC Economics Research

Housing market from rapid boil to simmer

In the 12 months to December 2009, the pace of existing home sales rose 68%, just shy of the record increase set in the period ending May 1991. The rapid pace of sales slowed in 2010 with the pace off 6.8% compared to December 2009. In part, this reflects the erosion in affordability that resulted from rising interest rates and prices moving to record-breaking highs. It is likely that the pace of sales will continue to slow in the second half of 2010 as interest rates grind higher and as the pent-up demand generated during the recession is exhausted. Additional pressure on the housing market is likely to come from the implementation of the HST in Ontario and BC, which will increase both the selling price of new high-end properties and ancillary cost of services associated with buying a home.

The influx of new listings improved supply and demand conditions in the housing market in early 2010. This rebalancing, combined with an expected increase in mortgage rates in the second half of the year, is forecasted to see the pace of price gains cool. In the first four months of 2010, prices, on average, were 19.4% higher than a year earlier.

Canada core C.P.I Model



Source: Statistics Canada, RBC Economics Research

Core inflation sidling up to 2% target

The Bank of Canada's measure of core inflation straddled the Bank's 2% target during the past four months, which was surprising given the depth of the economic downturn. Our research suggests that, unlike in the United States where the output gap continues to have a significant role in explaining price increases, it is inflation expectations that are more influential in Canada. In fact, in the period following the Bank's adoption of the inflation-targeting policy in 1991, expectations became the dominant variable in explaining movements in the core inflation rate anchored by this target. These expectations help to explain why the inflation rate remains exceptionally close to the 2% target even with the economy running with an estimated 2.25 percentage points output gap. Going forward, we expect that the core rate will hold just below the 2% target giving the Bank leeway gradually to reduce the amount of policy stimulus.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	2009				2010	Forecast			2011						Forecast year-over-year % change	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Consumer spending	-1.1	2.2	3.8	3.9	4.4	3.5	2.5	2.9	2.9	3.0	3.0	2.8	2.9	0.4	3.6	2.9
Durables	-9.9	5.5	13.9	13.1	7.4	6.3	5.1	4.8	5.0	5.3	5.8	4.8	5.4	-1.5	8.4	5.2
Semi-Durables	-6.6	-1.0	1.2	1.6	16.8	7.0	1.7	2.3	2.8	2.5	1.7	1.7	3.6	-2.2	6.1	2.6
Non-durables	2.8	0.3	1.8	-0.4	2.7	2.9	2.2	3.0	3.1	2.8	2.8	2.5	1.5	0.7	1.8	2.8
Services	0.0	2.8	3.0	4.2	2.8	2.6	2.2	2.5	2.3	2.6	2.6	2.7	2.8	1.1	3.0	2.5
Government spending	3.1	1.5	6.6	6.9	1.9	2.1	2.3	2.2	1.3	0.3	-0.4	-0.5	3.9	3.5	3.5	1.1
Business investment	-35.6	-13.3	3.9	2.6	9.4	8.9	2.8	4.2	5.2	6.1	4.7	3.6	0.8	-16.0	4.6	4.9
Residential construction	-21.5	5.9	9.1	26.3	23.6	17.0	-4.2	-1.1	2.5	4.8	1.7	-0.9	-3.7	-8.2	14.3	1.9
Non-residential structures	-41.9	-27.4	-13.0	-11.4	-5.4	-0.6	6.1	6.3	5.5	5.1	5.1	5.3	7.7	-19.5	-6.3	5.2
Machinery & equipment	-41.3	-15.9	17.6	-8.1	7.5	7.4	8.9	9.1	8.5	8.7	8.3	7.7	-0.9	-20.3	4.2	8.6
Final domestic demand	-7.6	-0.2	5.3	5.0	4.7	4.1	2.5	2.9	2.8	2.8	2.4	2.1	2.8	-1.8	4.0	2.8
Exports	-31.5	-15.9	9.5	13.8	12.0	8.1	8.7	9.8	9.8	10.1	10.9	10.1	-4.6	-14.2	8.8	9.8
Imports	-38.7	-1.9	27.3	12.4	14.1	10.1	7.0	8.1	8.2	7.8	7.9	7.5	1.2	-13.9	12.2	8.0
Inventories (change in $b)	-6.9	-1.8	-1.6	-1.2	8.2	8.0	8.2	9.2	11.0	12.3	12.8	13.1	9.0	-2.9	8.4	12.3
Real gross domestic product	**-7.0**	**-2.8**	**0.9**	**4.9**	**6.1**	**3.4**	**3.0**	**3.6**	**3.8**	**3.8**	**3.3**	**2.8**	**0.5**	**-2.5**	**3.6**	**3.5**

Other indicators

Year-over-year % change unless otherwise indicated

	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2008	2009	2010	2011
Business and labour																
Productivity	0.5	0.6	0.4	1.4	2.1	2.0	2.4	1.8	1.3	1.6	1.5	1.2	-0.6	0.7	2.1	1.4
Pre-tax corporate profits	-29.8	-43.0	-39.2	-12.1	16.8	33.5	27.1	21.8	17.1	16.9	15.3	13.3	8.0	-32.3	24.5	15.6
Unemployment rate (%)**	7.8	8.4	8.5	8.4	8.2	8.1	8.0	7.7	7.6	7.4	7.2	7.1	6.1	8.3	8.0	7.3
Inflation																
Headline CPI	1.2	0.1	-0.9	0.8	1.6	1.6	2.3	2.0	2.2	2.4	2.2	2.1	2.4	0.3	1.9	2.2
Core CPI	1.9	1.9	1.6	1.6	1.9	1.8	1.8	1.8	1.8	1.8	1.9	2.0	1.7	1.7	1.8	1.9
External trade																
Current account balance ($b)	-28.4	-49.8	-55.1	-40.8	-31.3	-32.9	-28.0	-25.4	-21.9	-19.5	-17.5	-16.2	6.9	-43.5	-29.4	-18.8
% of GDP	-1.9	-3.3	-3.6	-2.6	-2.0	-2.0	-1.7	-1.5	-1.3	-1.1	-1.0	-0.9	0.4	-2.8	-1.8	-1.1
Housing starts (000s)**	132	128	156	180	199	200	178	180	187	186	185	182	212	149	189	185
Motor vehicle sales (mill., saar)**	1.41	1.45	1.53	1.55	1.60	1.55	1.62	1.62	1.62	1.62	1.63	1.63	1.67	1.48	1.59	1.63

**Period average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

							Forecast								Forecast	
	2009				2010				2011				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Consumer spending	0.6	-0.9	2.8	1.6	3.5	3.0	2.5	2.5	2.7	2.9	2.9	2.8	-0.2	-0.6	2.5	2.7
Durables	3.9	-5.6	20.4	0.4	12.2	10.6	11.8	11.5	8.9	8.8	6.4	5.3	-4.5	-3.9	9.3	9.3
Non-durables	1.9	-1.9	1.5	4.0	4.0	3.0	1.2	1.2	1.8	2.5	2.9	2.8	-0.8	-1.0	2.6	2.0
Services	-0.3	0.2	0.8	1.0	2.0	1.8	1.5	1.6	2.0	2.1	2.4	2.4	0.7	0.1	1.4	1.9
Government spending	-2.6	6.7	2.7	-1.3	-1.9	1.0	1.0	0.7	0.3	0.0	-0.4	-0.5	3.1	1.8	0.3	0.3
Business investment	-39.0	-12.5	-1.3	5.0	0.1	7.9	5.1	7.2	10.0	11.6	13.4	12.0	-5.1	-18.3	2.5	9.6
Residential construction	-38.2	-23.2	18.9	3.7	-10.7	19.5	1.1	10.3	16.0	21.7	23.5	19.3	-22.9	-20.5	2.5	15.4
Non-residential structures	-43.6	-17.3	-18.4	-18.1	-15.3	-11.9	-5.5	1.5	3.8	6.4	7.9	7.1	10.3	-19.8	-13.7	2.3
Equipment & software	-36.4	-4.9	1.5	19.0	12.7	12.5	11.5	8.5	10.5	10.1	12.1	11.4	-2.6	-16.6	10.8	10.6
Final domestic demand	-6.4	-0.9	2.3	1.4	2.0	3.2	2.5	2.7	3.0	3.3	3.5	3.2	-0.4	-2.7	2.1	3.0
Exports	-29.9	-4.1	17.8	22.8	7.2	12.4	10.5	11.5	10.1	11.1	11.5	11.5	5.4	-9.6	12.2	11.0
Imports	-36.4	-14.7	21.3	15.8	10.4	15.4	9.1	8.5	8.7	8.5	8.0	7.7	-3.2	-13.9	11.5	8.9
Inventories (change in $b)	-113.9	-160.2	-139.2	-19.7	33.9	46.2	48.7	56.5	72.1	86.0	90.2	101.1	-25.9	-108.2	46.3	87.4
Real gross domestic product	**-6.4**	**-0.7**	**2.2**	**5.6**	**3.0**	**2.8**	**2.5**	**3.1**	**3.5**	**3.9**	**3.9**	**3.8**	**0.4**	**-2.4**	**3.1**	**3.4**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
Business and labour																
Productivity	1.8	3.0	4.6	5.7	6.1	4.5	3.1	2.1	2.1	2.4	2.4	2.4	2.1	3.8	3.9	2.3
Pre-tax corporate profits	-19.0	-12.6	-6.6	30.6	31.0	28.7	17.6	10.7	6.9	6.8	7.7	8.1	-11.8	-3.8	21.3	7.4
Unemployment rate (%)**	8.2	9.3	9.6	10.0	9.7	9.8	9.7	9.6	9.4	9.1	8.9	8.7	5.8	9.3	9.7	9.0
Inflation																
Headline CPI	0.0	-1.2	-1.6	1.4	2.4	2.0	1.6	1.5	1.8	1.9	1.8	1.7	3.8	-0.4	1.9	1.8
Core CPI	1.7	1.8	1.5	1.7	1.3	0.9	1.0	1.0	1.3	1.3	1.5	1.6	2.3	1.7	1.1	1.4
External trade																
Current account balance ($b)	-417	-391	-409	-462	-505	-531	-545	-548	-558	-559	-552	-540	-706	-420	-532	-552
% of GDP	-2.9	-2.8	-2.9	-3.2	-3.5	-3.6	-3.7	-3.6	-3.7	-3.6	-3.5	-3.4	-4.9	-2.9	-3.6	-3.6
Housing starts (000s)**	530	537	586	565	617	651	680	712	775	852	927	981	900	554	665	884
Motor vehicle sales (millions, saar)**	9.5	9.6	11.5	10.8	11.0	11.5	12.2	12.8	13.1	13.4	13.5	13.5	13.2	10.3	11.9	13.4

**Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates

%, end of period

	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	Forecast 10Q4	11Q1	11Q2	11Q3	11Q4	2009	Forecast 2010	2011
Canada														
Overnight rate	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00	2.50	3.00	3.00	0.25	1.50	3.00
Three-month T-bills	0.24	0.22	0.19	0.28	0.55	1.10	1.65	2.20	2.65	3.15	3.10	0.19	1.65	3.10
Two-year GoC bonds	1.20	1.26	1.47	1.73	1.90	2.50	2.75	3.00	3.30	3.70	3.90	1.47	2.75	3.90
Five-year GoC bonds	2.46	2.57	2.77	2.90	2.80	3.20	3.40	3.55	3.70	3.90	4.15	2.77	3.40	4.15
10-year GoC bonds	3.36	3.31	3.61	3.56	3.45	3.75	3.95	4.00	4.05	4.05	4.25	3.61	3.95	4.25
30-year GoC bonds	3.91	3.84	4.07	4.07	3.90	4.10	4.20	4.30	4.40	4.50	4.50	4.07	4.20	4.50
Yield curve (10s-2s)	216	205	214	183	155	125	120	100	75	35	35	214	120	35
United States														
Fed funds rate	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.50	1.00	1.50	2.00	2.50	0 to 0.25	0.50	2.50
Three-month T-bills	0.19	0.14	0.06	0.16	0.25	0.35	0.90	1.25	1.60	2.10	2.65	0.06	0.90	2.65
Two-year bonds	1.11	0.95	1.14	1.02	0.85	1.40	1.75	2.25	2.75	3.50	3.75	1.14	1.75	3.75
Five-year bonds	2.54	2.31	2.69	2.55	2.25	2.75	3.00	3.25	3.65	3.75	3.95	2.69	3.00	3.95
10-year bonds	3.53	3.31	3.85	3.84	3.35	3.75	4.00	4.10	4.20	4.25	4.50	3.85	4.00	4.50
30-year bonds	4.32	4.03	4.63	4.72	4.25	4.50	4.65	4.75	4.75	4.75	4.75	4.63	4.65	4.75
Yield curve (10s-2s)	242	236	271	282	250	235	225	185	145	75	75	271	225	75
Yield spreads														
Three-month T-bills	0.05	0.08	0.13	0.12	0.30	0.75	0.75	0.95	1.05	1.05	0.45	0.13	0.75	0.45
Two-year	0.09	0.31	0.33	0.71	1.05	1.10	1.00	0.75	0.55	0.20	0.15	0.33	1.00	0.15
Five-year	-0.08	0.26	0.08	0.35	0.55	0.45	0.40	0.30	0.05	0.15	0.20	0.08	0.40	0.20
10-year	-0.17	0.00	-0.24	-0.28	0.10	0.00	-0.05	-0.10	-0.15	-0.20	-0.25	-0.24	-0.05	-0.25
30-year	-0.41	-0.19	-0.56	-0.65	-0.35	-0.40	-0.45	-0.45	-0.35	-0.25	-0.25	-0.56	-0.45	-0.25

Exchange rates

%, end of period

	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	Forecast 11Q1	11Q2	11Q3	11Q4	2009	Forecast 2010	2011
Australian dollar	0.81	0.88	0.90	0.92	0.86	0.88	0.87	0.86	0.85	0.84	0.84	0.90	0.87	0.84
Brazilian real	1.95	1.77	1.74	1.78	1.83	1.85	1.85	1.87	1.90	1.90	1.95	1.74	1.85	1.95
Canadian dollar	1.16	1.07	1.05	1.02	1.03	1.01	1.03	1.05	1.06	1.07	1.08	1.05	1.03	1.08
Chinese renminbi	6.83	6.83	6.83	6.83	6.70	6.60	6.50	6.40	6.30	6.20	6.10	6.83	6.50	6.1
Euro	1.40	1.46	1.43	1.35	1.19	1.18	1.15	1.12	1.10	1.09	1.09	1.43	1.15	1.09
Japanese yen	96	90	93	93	91	90	95	98	100	102	103	93	95	103
Mexican peso	13.19	13.51	13.10	12.36	12.70	12.50	12.25	11.75	11.75	12.00	12.00	13.10	12.25	12
New Zealand dollar	0.65	0.72	0.73	0.71	0.70	0.72	0.72	0.70	0.69	0.68	0.67	0.73	0.72	0.67
Swiss franc	1.09	1.04	1.04	1.05	1.16	1.16	1.18	1.21	1.22	1.22	1.22	1.04	1.18	1.22
U.K. pound sterling	1.65	1.60	1.62	1.52	1.40	1.41	1.39	1.37	1.36	1.36	1.36	1.62	1.39	1.36

Source: Statistics Canada, RBC Economics Research forecasts