Inside...

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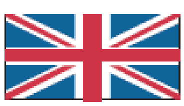
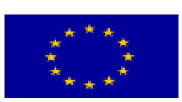
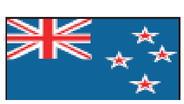
Treading lightly

Whether central banks are leaning toward gradually tightening monetary policy (the Fed) or contemplating further stimulus (everyone else, it seems), we have seen a number of finely balanced monetary policy decisions in recent weeks. The Fed's choice not to raise rates in September was a "close call" and their latest statement did little to suggest the discussion was any different in November. Barring an extended period of market volatility following Trump's surprising election victory, we expect conditions will move in favour of the Fed raising rates in December. Conversely, the BoC contemplated cutting the overnight rate after revising their growth forecast lower but held off on easing amid several sources of heightened uncertainty in the economic outlook. The risk of a rate cut is likely to persist into 2017 but we expect stronger growth will keep the BoC on hold. The BoE previously indicated a second rate cut would be likely this year; however, with growth surprising to the upside since the Brexit vote, they opted to leave the Bank Rate unchanged in November and did little to suggest further easing on the way.

Indications that the Fed is likely to raise rates before year end, skepticism that the BoE would provide more accommodation, and general concern that central banks are becoming less willing to add further stimulus put upward pressure on government bond yields in October. Rising inflation expectations also contributed to the selloff as oil prices picked up to year-to-date highs of $50/barrel in October before losing some ground in the last two weeks on indications that OPEC might have trouble reaching a consensus to cap output. Along with rising bond yields, equity markets recorded modest declines with the S&P 500 falling 1.9% in October despite earnings being on track to beat expectations in the quarter. Equities declined further and volatility picked up in the wake of the unexpected US election result but it is unclear whether the market's knee-jerk reaction will prove persistent.

Central bank near-term bias

Three-months out, policy rate

	↔	The BoC discussed easing policy in October but opted to leave rates unchanged while monitoring trends in housing, exports and fiscal stimulus. Risk of a cut will persist into 2017 but we expect monetary policy will be held steady.
	↗	The Fed's November policy statement was little changed—as expected just one week before the US presidential election. However, the FOMC noted the case for a hike continued to strengthen and we expect they will reach a consensus to raise rates in December.
	↔	With activity holding up following the Brexit vote, the BoE opted to leave rates and QE unchanged in November with little bias to ease further. We now look for the Bank Rate to be held steady through 2017.
	↔	The ECB deferred any policy change to December when a review of its asset purchase program will be completed. We look for purchases to be extended beyond March 2017 alongside tweaks to the program's parameters that could result in a more effective composition of purchases.
	↔	The RBA sounded content with its current policy setting and we see the cash rate being held steady into next year with the potential for one final cut in the easing cycle by mid-2017.
	↘	We expect the RBNZ will act on its easing bias in November after holding off on a rate cut in September. It is less clear whether easing will continue in 2017 with some signs that domestic inflation is picking up.

Highlights

▲ US GDP growth rebounded in the third quarter although domestic demand growth slowed.

▲ With sizeable adds from exports and inventories not likely to be repeated, we see growth moderating slightly in the coming quarters.

▲ Minutes of the September FOMC meeting indicated the decision not to hike was a "close call" for some members.

▲ The Fed noted the case for a rate hike continued to strengthen and we now expect they will reach a consensus to tighten in December.

US economy bounced back in Q3…

After disappointing over the first half of the year, the US economy picked up in the third quarter with GDP growth of 2.9% (annualized) slightly exceeding expectations. Underlying details were a bit softer than the headline suggested, however, with a good portion of the increase coming from gains in exports and inventory investment that are unlikely to be sustained. Net trade contributed 0.8 percentage points to GDP growth, the strongest add in nearly three years as exports surged an annualized 10%. Some of that increase should prove temporary, and we expect headwinds from a strong US dollar and subdued global growth set against relatively strong US demand will continue to tilt the balance toward a modest drag from net trade going forward. Inventory investment added 0.6 ppts as producers increased stockpiles at a faster pace for the first time in more than a year. While it is encouraging to see the drag from inventories halted in the third quarter, our forecast assumes inventory investment will not continue to provide as much support.

Excluding trade and inventories, growth in final domestic demand slowed relative to the previous quarter. Consumer spending continued to rise at a solid pace although the third quarter's 2.1% annualized increase was down from average growth of nearly 3% in the first half of the year (effectively the only source of growth over that period). Residential investment slowed for a second consecutive quarter as both home sales and housing starts fell. Business investment recorded another modest increase, although investment in equipment and software was once again a source of weakness. Nonresidential structures investment posted a decent gain despite another drag from the energy sector (even as rig counts increased for the first time since oil prices began to decline).

…but don't expect 3% growth to continue

Our forecast assumes some reversal of the recent surge in exports and a smaller contribution from inventory investment will once again leave the US economy relying on domestic spending. While there is little hard data available for the current quarter, we look for another solid gain in consumer spending and further improvement in business investment to keep the economy expanding at an above-trend pace. Less drag from the energy sector should help with the latter, and an increase in capital goods orders in the third quarter raises the prospect that machinery and equipment investment will begin to reverse the recent slide. For consumers, the increase in September PCE and strong October auto sales provide a good jumping off point, and the combination of solid job growth, rising wages and steady consumer sentiment suggest support for spending is not likely to fade in the near-term. All told, we expect GDP growth will moderate to a 2.0-2.5% pace in the coming quarters, which should be enough to continue to absorb remaining slack in the economy. The recent US election could result in policy changes that impact the economic outlook though any revisions await further details being announced.

Fed setting up for December rate hike

The Fed held rates steady in November and made only minor tweaks to the policy statement, in line with expectations for an uneventful meeting less than a week ahead of the US presidential election. The statement acknowledged that inflation has picked up this year and market-based measures of inflation expectations are rising. While both remain lower than desired, the Fed is likely becoming more confident that inflation will return to its 2% inflation objective in the medium term. The Fed also noted that the case for a hike "continued to strengthen" but decided to wait for "some further evidence" of progress toward their objectives. That language was slightly stronger than in September, when the decision not to hike was already a "close call" for some, and likely indicates a growing consensus to raise rates in December as long as the data cooperate. October's jobs report did just that, showing another solid increase in payrolls and a decline in the unemployment rate. We think the case for a rate hike is compelling given the recent pickup in inflation, a strong labour market and improving growth during the second half of the year. The unexpected election result and ensuing market volatility threw a spanner in the works, although the prospect of more stimulative fiscal policy from the incoming government helped calm markets somewhat. As long as volatility proves short-lived, we expect the Fed will be comfortable raising the fed funds rate by 25 bps in December. Our forecast continues to assume further tightening will be gradual with another 50bps of hikes next year. That is expected to push the 10-year US Treasury yield up to 2.45% at the end of 2017.

More evidence of Canada's Q3 rebound

Canada recorded a third consecutive increase in monthly GDP with growth of 0.2% in August building on more sizeable gains in June and July. The latest increase came entirely from goods producing industries, with yet another rise in oil and gas extraction returning the sector's output to levels seen prior to maintenance and wildfire-related shutdowns in April and May. A flat reading in the services sector, the weakest since March, is disappointing, particularly with the Bank of Canada having recently highlighted services as a source strength in the economy (although the sector still grew 2.2% year-over-year). The increase in August GDP is consistent with our forecast for activity to have rebounded strongly in the third quarter, although with a modest downward revision to July's growth rate we have marked our quarterly forecast down to 3.5% from 3.7% previously.

Bank of Canada considered easing in October…

The Bank of Canada's October policy statement provided a cautious assessment of the economic outlook, noting that slower growth in exports and housing were likely to result in the economy reaching full capacity "materially later" than previously anticipated. The Bank maintained a positive tone on non-resources activity, and their easing bias was less explicit than in September with risks to the inflation outlook now seen as "roughly balanced," albeit around the new, lower profile. Governor Poloz added a dovish twist at the post-meeting press conference, noting the Bank had considered easing policy in light of the downgraded growth outlook. They held off on lowering rates amid several sources of uncertainty in their latest forecast, particularly the impact of macro-prudential measures to cool the housing sector, the size and timing of federal fiscal stimulus, and uncertainty about the potential path of exports.

…after cutting growth forecasts once again

Those themes were prevalent in the Bank's updated projections, with growth lowered by 0.2 percentage points both this year and next (now 1.1% in 2016 and 2.0% in 2017). Taking into account the federal government's steps to curb risks in the housing sector, the Bank now expects housing will act as a drag on growth in 2017 rather than the modest add previously projected. The contribution from net trade was also lowered this year and next as the Bank now sees some of the recent weakness in exports as structural rather than cyclical. Even incorporating those developments, the Bank continues to project modestly above-trend growth going forward, thanks in part to a cumulative one percentage point add from fiscal stimulus by the end of fiscal year 2018, unchanged from when the federal government initially revealed its budget earlier this year.

The Bank's concerns about export growth will only have been exacerbated by the latest trade report that showed non-energy export volumes remaining below year-ago levels in September following a second consecutive monthly decline. Uncertainty regarding exports, housing and the add from fiscal stimulus is likely to linger into next year. We expect the Bank will maintain a cautious tone, keeping alive the risk of further easing (markets are currently pricing in around 25% odds of a cut next year). However, with our forecast for 1.8% growth next year, we don't expect activity will disappoint to an extent that warrants a cut and we look for the overnight rate to be held steady into 2018.

Fall Economic Statement focuses on long term spending

Finance Minister Morneau delivered the government's Fall Economic Statement on November 1 amid expectations that additional fiscal stimulus might be deployed in response to weaker-than-expected economic growth. In the event there was little new spending announced for the near-term, with the government maintaining they are on track for earlier-announced measures to provide an estimated 0.5 percentage point boost to growth this fiscal year. They did, however, commit to ramping up infrastructure investment in the outer years, financed in part by the creation of an infrastructure bank (initially funded at $35 billion) that will plan and prioritize spending and attract private investment in infrastructure. While a significant increase in infrastructure investment could help shore up potential growth in the longer term, the update did little to change our view that stimulus measures will provide a modest lift to growth this year and next.

Highlights

▲ August's 0.2% GDP growth added to earlier gains but activity in the services sector disappointed.

▲ We are with the BoC in expecting growth will moderate following an above-3% gain in the third quarter.

▲ The BoC considered lowering the overnight rate in October but held off amid uncertainties in their updated outlook.

▲ The federal government's fall update focused on longer term stimulus spending with few new near-term measures added to the stimulus already announced in Budget 2016.

Highlights

▲ UK growth was unexpectedly strong following the Brexit vote but we continue to expect a slowdown in 2017.

▲ Euro area PMI and sentiment readings improved in October.

▲ The RBA is expected to hold policy steady well into 2017 after lowering rates twice this year.

▲ Weak third-quarter inflation likely sealed the deal on a November rate hike after the RBNZ held off in September.

UK growth surprised to the upside following the Brexit vote

The initial estimate of third-quarter GDP showed a 0.5% gain, exceeding both market and BoE projections in the first quarter following the UK's Brexit vote. While the economy outperformed most expectations since the June 23 referendum, we remain cautious on the growth outlook going forward. Consumer spending is likely to lose momentum as households' purchasing power is squeezed by currency depreciation (we forecast inflation will rise to 2½% next year) and uncertainty about access to the Single Market is expected to weigh on business investment. Despite these headwinds, the Bank of England marked up their growth forecast for 2017, partially reflecting a stronger-than-expected near-term outlook following the referendum. Growth was trimmed in the latter part of their forecast as uncertainty about future trade relationships and access to the EU have the potential to weigh on the supply side of the economy. Slower potential growth is expected to keep inflation as high as 2.5% by the end of 2019, beyond the more immediate inflationary impact of Sterling depreciation. With growth expected to slow but inflation projected to remain above target, the BoE shifted to a fairly neutral stance noting "monetary policy can respond in either direction." Our forecast no longer assumes another Bank Rate cut, but risks are still tilted toward easier monetary policy, most likely via additional QE.

Slow and steady continues in the euro area

The euro area's advance GDP print showed third-quarter growth of 0.3%, matching the previous quarter's gain. While the economy continues to advance steadily, the recent pace has barely been strong enough to absorb labour market slack with the unemployment rate stuck at 10% over the last three months. That said, there are early indications that activity is picking up in the fourth quarter. The euro area composite PMI jumped to a nine-month high in October and another measure of economic sentiment improved for a second consecutive month. Survey readings also showed some improvement in price measures—welcome news with core inflation remaining a percentage point below the ECB's target in October. Despite some positive developments, the ECB is unlikely to take their foot off the gas in terms of policy stimulus. In October, ECB President Draghi indicated that results of a review of the asset purchase program (intended to ensure "smooth implementation") will be available at the December meeting alongside new staff forecasts. We expect the ECB will announce an extension of asset purchases beyond March 2017 with adjustments to the program that will allow the current pace of buying to be maintained and improve the efficacy of purchases.

RBA comfortable with current policy stance

The Reserve Bank of Australia left the cash rate unchanged in November and looks set to hold policy steady well into next year after lowering rates twice in 2016. While the accompanying economic projections were untouched, the policy statement sounded more upbeat on several fronts, noting stable growth in China, rising home prices, and an expectation that the economy will grow near potential and inflation will pick up in the medium term. The RBA also mentioned rising bulk commodity prices, which are likely to result in another improvement in terms of trade and thus an easing in what has been a key headwind to growth in recent years. There are risks around all of those factors but as it stands the RBA appears comfortable with the current policy setting and the bar to ease further is high. Our forecast assumes the cash rate will be held steady into 2017 with the potential for one more rate cut in this cycle, particularly if subdued wage and inflation dynamics persist.

RBNZ likely to ease after another low inflation print

While holding the cash rate steady in September, the Reserve Bank of New Zealand maintained a strong easing bias and noted that upcoming economic data would be watched closely—most significantly, in our opinion, third-quarter inflation. In the event, headline CPI slipped to a 2016 low of just 0.2% year-over-year, marking the eighth consecutive quarter that inflation has held below the RBNZ's 1-3% target range. The reading was in line with the central bank's forecast, itself based on further easing, and solidifies the case for a rate cut at November's meeting. However, the case for easing to continue next year is now less clear-cut. Non-tradeable inflation picked up in the third quarter, and while the rate itself (now just above 2%) largely reflects rising shelter costs, it appears domestic inflation is gradually ticking higher. Base effects are also expected to push the headline rate higher, which should remove some of the downward pressure on inflation expectations heading into 2017. That said, with inflation expected to remain below the RBNZ's 2% midpoint into 2018, we continue to see risks tilted in favour of another rate cut early next year.

Interest rate outlook

%, end of period

	Actuals							Forecast				
	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Canada												
Overnight	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Three-month	0.55	0.58	0.43	0.51	0.45	0.48	0.53	0.50	0.50	0.50	0.55	0.60
Two-year	0.50	0.48	0.52	0.48	0.54	0.52	0.52	0.60	0.60	0.65	0.70	0.75
Five-year	0.77	0.82	0.80	0.73	0.67	0.57	0.62	0.75	0.80	0.90	1.05	1.15
10-year	1.36	1.69	1.43	1.40	1.23	1.06	1.00	1.25	1.40	1.60	1.75	2.00
30-year	1.98	2.31	2.20	2.15	2.00	1.72	1.66	1.90	2.05	2.25	2.45	2.65
United States												
Fed funds**	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25
Three-month	0.03	0.01	0.00	0.16	0.21	0.26	0.29	0.50	0.50	0.75	0.85	1.00
Two-year	0.56	0.64	0.64	1.06	0.73	0.58	0.77	0.85	1.00	1.15	1.30	1.40
Five-year	1.37	1.63	1.37	1.76	1.21	1.01	1.14	1.25	1.40	1.55	1.70	1.85
10-year	1.94	2.35	2.06	2.27	1.78	1.49	1.60	1.75	1.90	2.10	2.30	2.45
30-year	2.54	3.11	2.87	3.01	2.61	2.30	2.32	2.55	2.60	2.85	3.00	3.10
United Kingdom												
Bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25
Two-year	0.43	0.55	0.56	0.66	0.45	0.13	0.13	0.20	0.20	0.25	0.20	0.15
10-year	1.58	2.01	1.76	1.96	1.43	0.89	0.76	0.90	1.30	1.50	1.60	1.60
Euro area												
Deposit Rate	-0.20	-0.20	-0.20	-0.30	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Two-year	-0.25	-0.23	-0.26	-0.34	-0.48	-0.61	-0.69	-0.60	-0.70	-0.65	-0.55	-0.50
10-year	0.18	0.77	0.59	0.63	0.15	-0.11	-0.12	0.00	0.25	0.40	0.60	0.60
Australia												
Cash target rate	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.25	1.25	1.25
Two-year	1.72	2.01	1.81	2.02	1.89	1.59	1.55	1.55	1.50	1.50	1.60	1.60
10-year	2.32	3.01	2.61	2.88	2.49	1.98	1.91	2.25	2.30	2.55	2.75	2.80
New Zealand												
Cash target rate	3.50	3.25	2.75	2.50	2.25	2.25	2.00	1.75	1.50	1.50	1.50	1.50
Two-year swap	3.48	3.09	2.69	2.83	2.19	2.22	1.96	2.00	1.90	1.90	1.90	2.00
10-year swap	3.71	3.89	3.48	3.73	2.97	2.65	2.41	2.60	2.60	2.85	3.00	3.15
Yield curve*												
Canada	86	121	91	92	69	54	48	65	80	95	105	125
United States	138	171	142	121	105	91	83	90	90	95	100	105
United Kingdom	115	146	120	130	98	76	63	70	110	125	140	145
Eurozone	43	100	85	97	63	50	57	60	95	105	115	110
Australia	60	100	80	86	60	39	36	70	80	105	115	120
New Zealand	23	80	79	90	78	43	45	60	70	95	110	115

* Two-year/10-year spread in basis points, **Top of 25 basis point range,

Source: Reuters, RBC Economics Research

Central bank policy rate

%, end of period

		Current	Last	
United States	Fed funds	0.25-0.50	0.0-0.25	December 16, 2015
Canada	Overnight rate	0.50	0.75	July 15, 2015
United Kingdom	Bank rate	0.25	0.50	August 4, 2016
Eurozone	Deposit rate	-0.40	-0.30	March 10, 2016
Australia	Cash rate	1.50	1.75	August 3, 2016
New Zealand	Cash rate	2.00	2.25	August 11, 2016

Source: Bloomberg, Reuters, RBC Economics Research

Economic outlook

Growth outlook

% change, quarter-over-quarter in real GDP

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015	2016F	2017F
Canada*	-1.0	-0.5	2.2	0.5	2.5	-1.6	3.5	1.9	1.9	1.8	1.6	1.8	2.5	1.1	1.3	1.8
United States*	2.0	2.6	2.0	0.9	0.8	1.4	2.9	2.3	2.3	2.1	2.0	1.9	2.4	2.6	1.6	2.2
United Kingdom	0.3	0.5	0.3	0.7	0.4	0.7	0.5	0.1	-0.1	0.0	0.0	0.1	3.1	2.2	2.0	0.4
Euro area	0.8	0.4	0.3	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.4	0.4	1.2	1.9	1.6	1.3
Australia	0.9	0.2	1.0	0.7	1.0	0.5	0.3	0.6	0.7	0.7	0.8	0.7	2.7	2.4	2.8	2.6
New Zealand	0.2	0.4	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.6	0.6	3.7	2.5	3.4	3.0

*annualized,

Inflation outlook

% change, year-over-year

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015F	2016F	2017F
Canada	1.1	0.9	1.2	1.3	1.5	1.6	1.2	1.7	2.3	2.5	2.7	2.4	2.0	1.1	1.5	2.5
United States	-0.1	0.0	0.1	0.5	1.1	1.0	1.1	1.8	2.5	2.4	2.6	2.2	1.6	0.1	1.3	2.4
United Kingdom	0.1	0.0	0.0	0.1	0.3	0.4	0.7	1.2	1.9	2.4	2.2	2.0	1.5	0.0	0.6	2.1
Euro area	-0.3	0.2	0.1	0.2	0.0	-0.1	0.3	0.7	1.6	1.5	1.4	1.1	0.4	0.0	0.2	1.4
Australia	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.4	2.2	2.6	2.5	2.7	2.5	1.5	1.3	2.5
New Zealand	0.3	0.4	0.4	0.1	0.4	0.4	0.2	0.9	1.0	1.0	1.2	1.5	1.2	0.3	0.5	1.2

Source: Statistics Canada, Bureau of Labor Statistics, Bank of England, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand, RBC Economics Research

Inflation tracking

Inflation Watch

	Measure	Current period	Period ago	Year ago	Three-month trend	Six-month trend
Canada	Bank of Canada core CPI[1]	Sep	0.1	1.8	1.4	2.2
United States	Core PCE[1,2]	Sep	0.1	1.7	1.7	1.8
United Kingdom	All-items CPI	Sep	0.2	1.0	1.9	1.1
Euro area	All-items CPI[1]	Oct	0.2	0.5	0.8	1.1
Australia	Trimmed mean CPI[1]	Q3	0.4	1.7	N/A	N/A
New Zealand	All-items CPI	Q3	0.2	0.2	N/A	N/A

1 Seasonally adjusted measurement.
2 Personal consumption expenditures less food and energy price indices.

Source: Statistics Canada, US Bureau of Labor Statistics, Bank of England, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand, RBC Economics Research

Currency outlook

Level, end of period

	Actuals							Forecast				
	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Canadian dollar	1.27	1.25	1.33	1.38	1.30	1.29	1.31	1.33	1.34	1.35	1.34	1.33
Euro	1.07	1.11	1.12	1.09	1.14	1.11	1.12	1.10	1.08	1.07	1.06	1.05
U.K. pound sterling	1.48	1.57	1.51	1.47	1.44	1.33	1.30	1.25	1.15	1.15	1.16	1.18
New Zealand dollar	0.75	0.68	0.64	0.68	0.69	0.71	0.73	0.78	0.80	0.78	0.77	0.76
Japanese yen	120.1	122.5	119.9	120.1	112.6	103.2	101.3	97.0	95.0	92.0	95.0	97.0
Australian dollar	0.76	0.77	0.70	0.73	0.77	0.75	0.77	0.79	0.79	0.76	0.74	0.72

Canadian dollar cross-rates

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
EUR/CAD	1.36	1.39	1.49	1.50	1.48	1.43	1.48	1.46	1.45	1.44	1.42	1.40
GBP/CAD	1.88	1.96	2.01	2.04	1.87	1.72	1.70	1.66	1.54	1.55	1.56	1.57
NZD/CAD	0.95	0.85	0.85	0.95	0.90	0.92	0.96	1.04	1.07	1.05	1.03	1.01
CAD/JPY	94.7	98.0	90.0	86.8	86.6	79.9	77.2	72.9	70.9	68.1	70.9	72.9
AUD/CAD	0.97	0.96	0.93	1.01	1.00	0.96	1.01	1.05	1.06	1.03	0.99	0.96

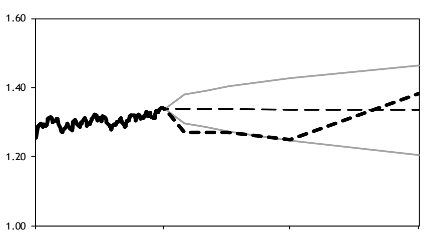
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

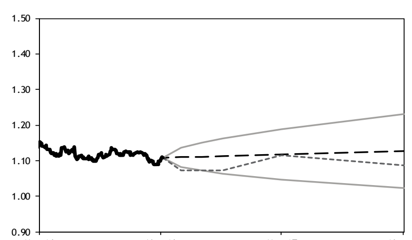
RBC Economics outlook compared to the market

The following charts track historical exchange rates plus the forward rate (dashed line) compared to the RBC Economics forecast (dotted line) out one year. The cone for the forecast period frames the forward rate with confidence bounds using implied option volatilities as of the date of publication.

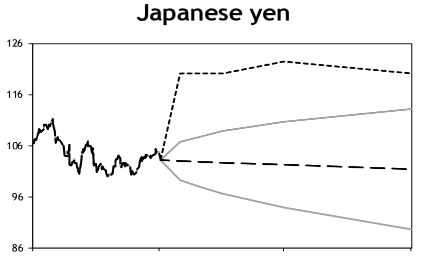
Canadian dollar



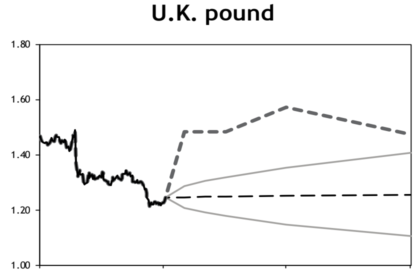
Euro



Japanese yen



U.K. pound

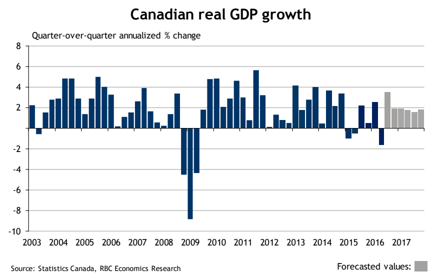


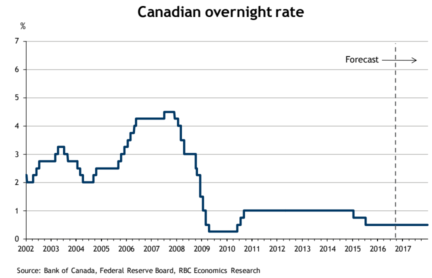
Central bank watch

Bank of Canada

The 0.2% increase in August GDP, building on stronger gains in June and July, supports our expectation for a strong third-quarter rebound, but soft underlying details (services were flat) point to more modest growth going forward.

The BoC lowered growth forecasts for this year and next and contemplated a rate cut with the economy now expected to reach potential "materially later" than previously expected (now mid-2018).

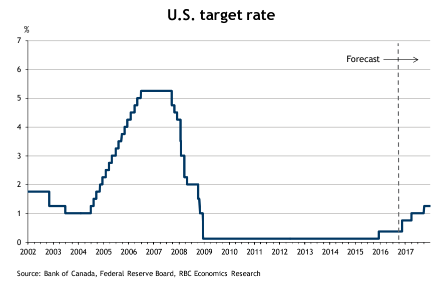




Federal Reserve

US GDP growth rebounded to nearly 3% in the third quarter although domestic demand growth actually slowed. We look for more modest albeit still above-trend gains heading into 2017.

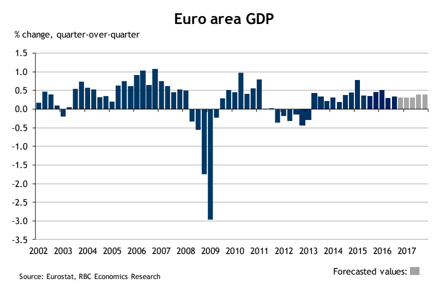
In November, the Fed provided a few more signals that it is leaning toward raising rates in December—as long as the data and financial markets cooperate. We now look for a 25bp hike at the upcoming meeting and an additional 50bps in 2017.

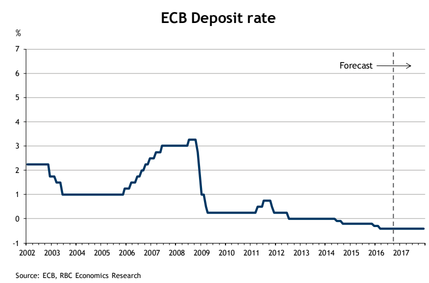


European Central Bank

With euro area PMIs picking up in October, we have raised our forecast for fourth-quarter growth to 0.3% from 0.2% previously.

The ECB is waiting for results of its asset purchase review and new staff forecasts in December before making changes that should allow purchases to be extended well into 2017. We also expect changes to improve the program's efficacy.

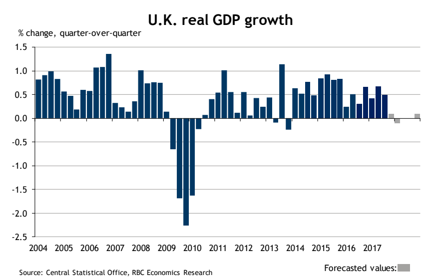


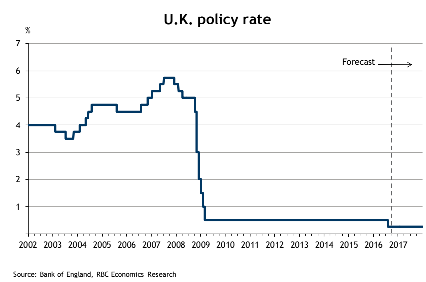


Bank of England

The initial estimate of third-quarter UK GDP growth showed a surprisingly strong 0.5% increase, defying earlier expectations for activity to slow following the Brexit vote. Nonetheless, we continue to expect a slowdown is on the way.

The BoE left policy unchanged in November and shifted to a fairly neutral bias with inflation expected to remain above target over their forecast horizon.

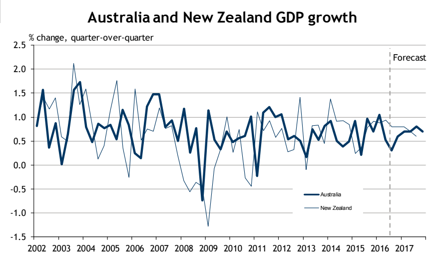


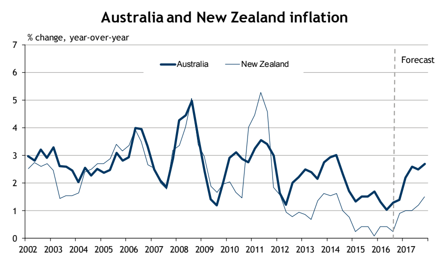


Australia and New Zealand

The RBA sounded slightly more upbeat on the economic outlook in November. Underlying inflation remains well below target but emphasis on the RBA's flexible mandate indicates policymakers are comfortable with the current setting.

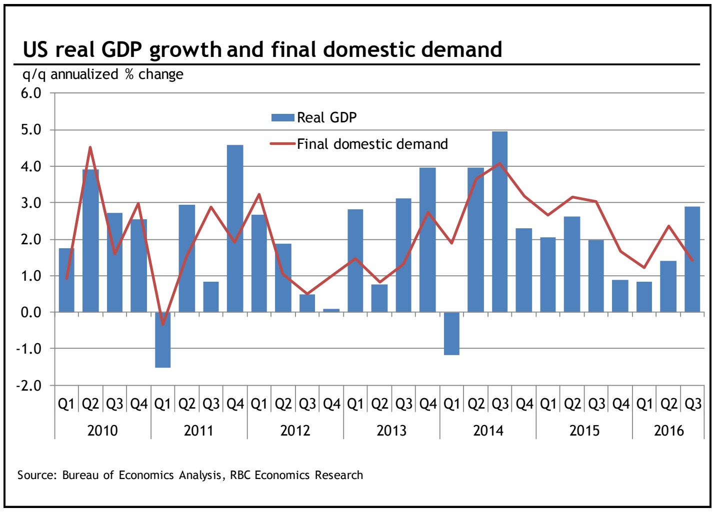
The RBNZ held onto a strong easing bias in September with a sharp focus on incoming data. We think the third quarter's low inflation print has set the stage for another rate cut in November.



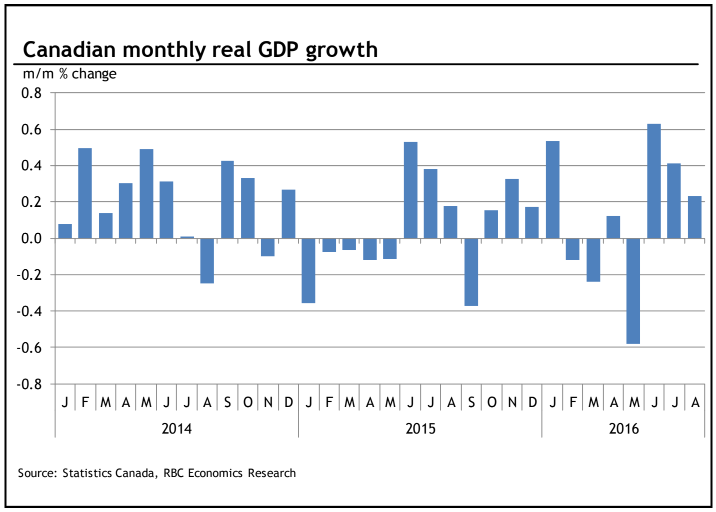


Hard to be disappointed with H2 growth thus far…

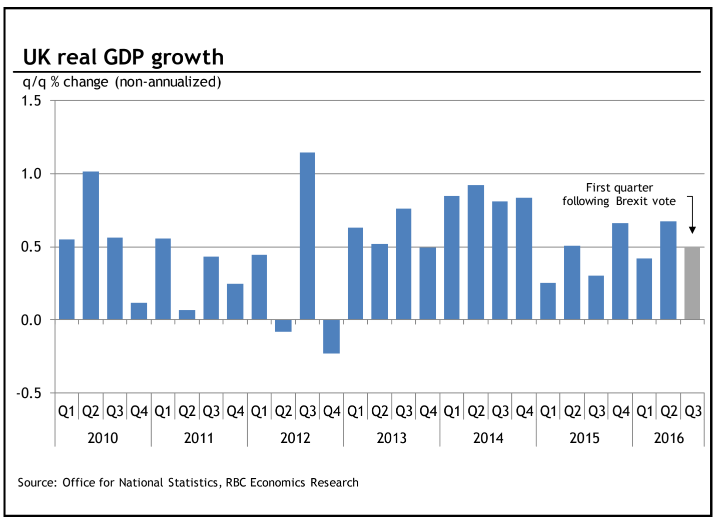
The US economy's third-quarter rebound was even stronger than expected, although a slowdown in domestic demand growth took some of the shine off the GDP report.



The Canadian economy's 0.2% gain in August built on stronger increases in the prior two months, setting up for GDP growth of more than 3% in the third quarter.



The UK economy surprised to the upside in the third quarter, following the June 23 Brexit vote. We continue to expect activity will slow going forward but the immediate reaction has certainly not been as negative as expected.



The euro area's composite PMI and business sentiment both showed solid improvement in October. While it is early yet, those readings suggest a steady pace of growth will continue in the fourth quarter.