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TD Securities

Global Markets

September 13, 2011
Rates & Foreign Exchange Research

I HAVE NO IDEA WHAT YOU DID THIS SUMMER

HIGHLIGHTS

- A lack of willingness or ability on the part of developed market policymakers to provide additional stimulus will weigh on a synchronized global economy
- The main risk to the outlook remains the dance between Greece, private sector investors, policymakers. A wrong step could easily imperil the global banking system and undermine confidence.
- Financial market volatility stands as a key certainty in a world lurching from crisis to crisis on a weekly basis.
- Forecast updates include delaying the next hike by the Bank of Canada until March 2013, delaying the next hike by the Reserve Bank of Australia until the second half of 2013 and redistributing 2011 hikes by the Reserve Bank of New Zealand.

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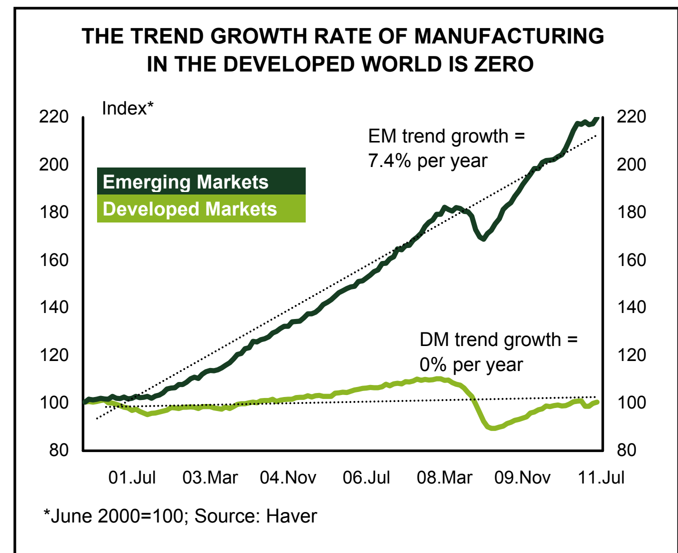
This summer, once again, shows us that there is no such thing as decoupling in economies or markets. For better or for worse, the United States still forms the core of the system. The growth rate of most advanced economies cycles as a spread off of the US growth rate. China has slowed just as much as it should given the anaemic performance of the US. The fact of the matter is even anaemic US growth is enough to fuel Chinese growth. So even if the US ISM stays flat, Chinese industrial production likely grows by over 3% per quarter. Even if the ISM falls 10% over a quarter, Chinese production still likely grows by 2% per quarter. The relationships have not decoupled and in fact, the world remains more synchronized than ever. QE2 gave the entire world a sugar rush that fuelled more inflation and growth outside the US than inside, and now that the rush has worn off, we all get to struggle with the inevitable crash together.

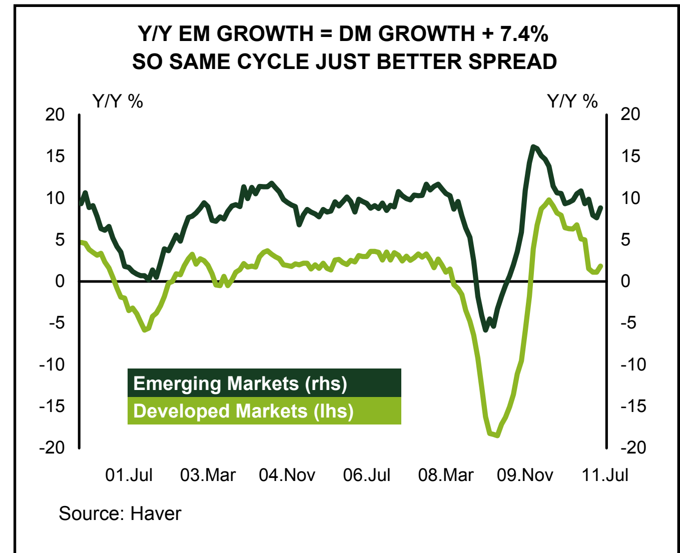
One of the less appreciated dynamics of the new world order is that when it comes to industrial production, the level of production in developed markets has been mean reverting while for emerging market (EM) economies, it is the growth rate of production that is mean reverting. So over the course of a full economic cycle, production in developed market (DM) economies ends up right back where it started, while EM production trends higher. In fact, for any given month-over-month growth, EM industrial production essentially grows at whatever rate developed markets grew at plus 0.6 percentage points. That's the reason EM equities are so lucrative. As long as EM production growth is running faster than DM production growth, EM equities tend to outperform DM equities. Since EM production tends to grow at premium to DMs, DM equities have a hard time ever gaining ground, especially once we add in currency gains.



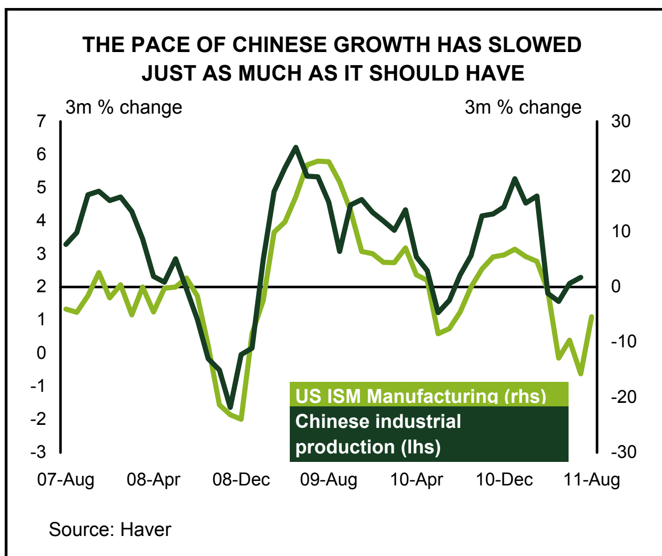
Manufacturing is the defibrillator for developed markets. Growth there sends a pulse through the economy that is meant to get the service sector heart of the economy running. If it doesn't take, though, we're left generally waiting for it to recharge and try again. And from a policy perspective, little can be done to accelerate this process. Many DM central banks—the Federal Reserve, Bank of England, European Central Bank, and the Bank of Japan—are all effectively impotent. The discord bordering on acrimony within governments on both sides

of the Atlantic ensures that additional stimulus will be weakened through the horse-trading necessary to preserve political viability. So half of the global economy has little ability to reload, recharge, and reinvigorate production growth in order to let us try again. The feeling of helplessness has weighed heavily on financial markets and has done little to support business and consumer confidence, who at the end of the day, must end up shouldering the burden of growth over the medium term. That is our biggest problem as it has left us at the mercy of cycles rather than the masters of our own domain.

But these are cyclical issues. They exacerbate existing structural adjustment problems. Europe is the biggest downside risk to an already poor outlook and many of the problems at the core of the sovereign debt crisis are coming to a head in September. The current catalyst is Greece and the debt swap designed to buy time for the country to make additional progress towards balance sheet repair through additional austerity and asset sales. Greece must cut government spending and raise revenues. This means for the time being, their cycle will be lower than the economy they are tethered to – the Eurozone. And for as long as Eurozone growth is underperforming, Greece will not meet its deficit reduction goals, their structural adjustment efforts will be compromised, and the systemic risk of a disorderly default of their sovereign debt that cascades through the banking sector grows.



Source: Haver



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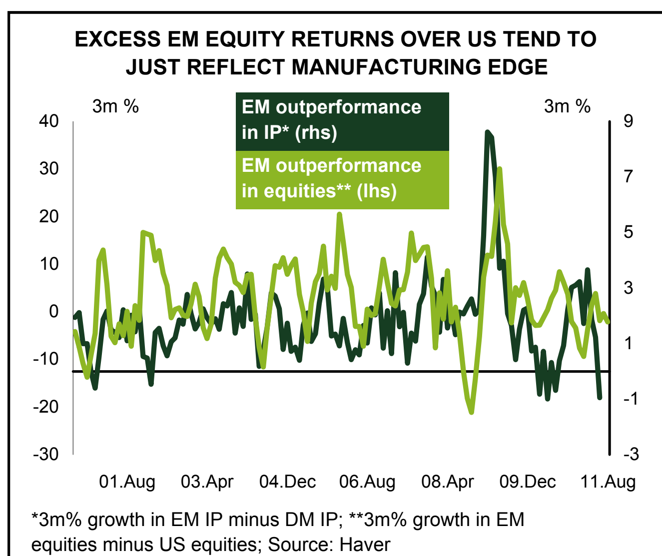


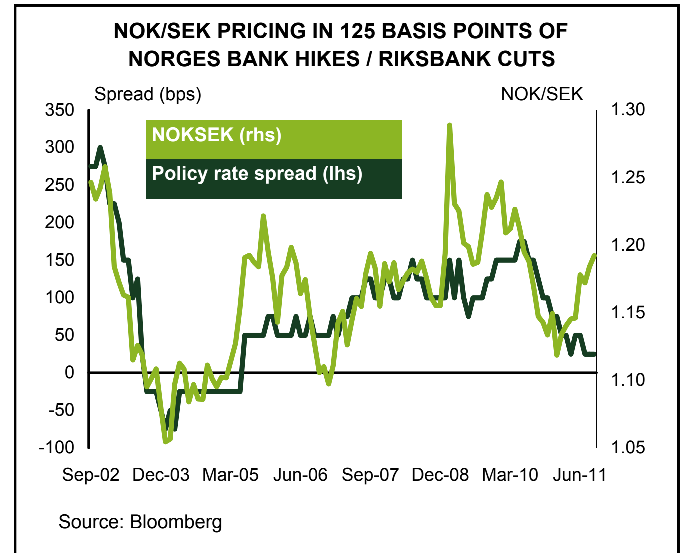
*3m% growth in EM IP minus DM IP; **3m% growth in EM equities minus US equities; Source: Haver

The hesitation of private sector investors to participate in the debt swap has returned the onus once again to policymakers to make up the difference. However, there is a increasingly vocal minority among policymakers who are hesitant to throw good money after bad to simply kick the can down the road several months. With a Greek default all but inevitable, the role of policymakers is to buy time for the rest of the world to heal to the point where they can take the inevitable haircut and the blow to confidence. Simply put, we are not there yet. But with significant amounts of Greek debt maturing in December (and again in March), if Greece is not on track in December or if the voluntary bond swap deal falls through, it is highly likely that Greece will default in December. Leaders will not agree to bail out private investors if the program continues fall behind.

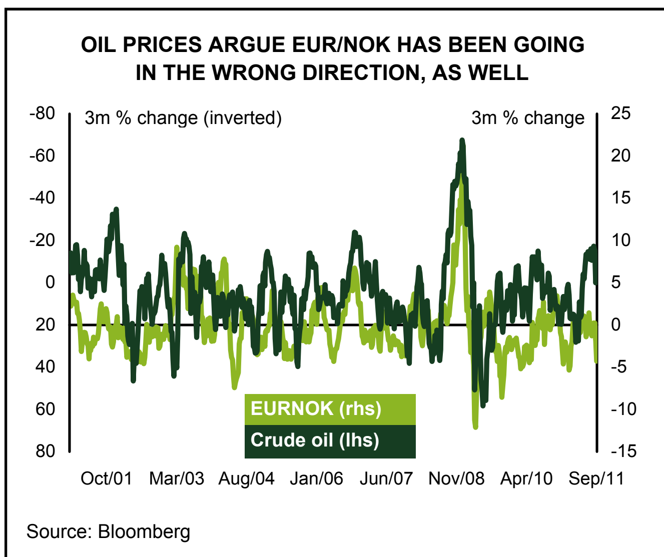
So volatility stays with us, as does the nasty amplifier that rather than the Eurozone offering some sort of fiscal stimulus to offset poor growth, they are speeding up the adjustment and exacerbating the downside risks. This is likely to lead to a recession for the Eurozone. If we get to the other side in spite of this, the Eurozone will be better off as they will

be miles ahead of the US in adjusting policy and putting fiscal drags behind them. But this definitely is not the least risky path to get to a happy ending.

All of this has left the market scrambling to find safe havens where it can park some money. The loss of the AAA status by the US seems to have sped up the desire of many large investors to diversify their holdings of "safe" assets. Meanwhile, the existential worries and lack of clear direction in the face of banking and sovereign debt crises has seen the euro lose its first prime chance to significantly improve its standing as a reserve currency. This has left other sovereign debt markets vying for the attention of reserve managers, none moreso than Norway, but such strong inflows that strengthen currencies in these markets raise the risk and likelihood of offsetting policy decisions from central banks when such moves dampen the prospects for growth and inflation.



Source: Bloomberg



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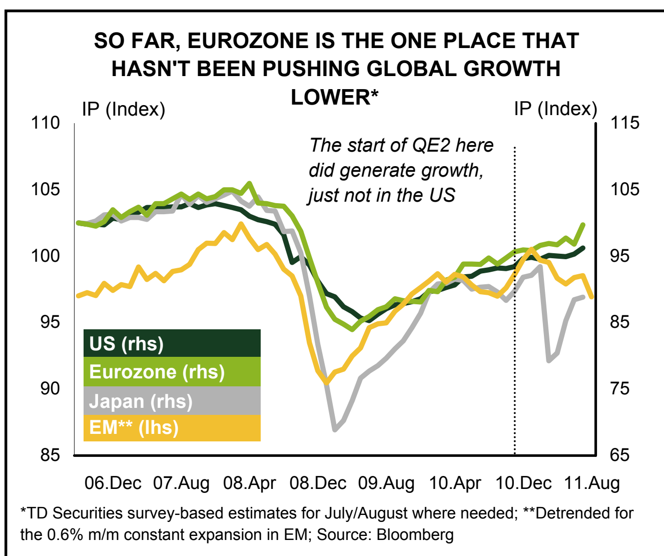

*TD Securities survey-based estimates for July/August where needed; **Detrended for the 0.6% m/m constant expansion in EM; Source: Bloomberg

The market can be fickle in deciding on who is the most attractive today, but safe havens require some combination of deep capital markets in which to park money and a strong fiscal position and asset position that puts them beyond reproach for default risks (and typically have lower yields as they are not high beta economies and currencies). The simple fact of the matter is that there are no longer any safe havens - and perhaps there never were. There are liquid havens that aren't as safe as they used to be (USD, EUR, JPY, CHF – the latter two fall in here because of interventionist tendencies) and safer havens that aren't as liquid as they need to be (AUD, CAD, NOK, SEK). This last group has fantastic asset and fiscal positions, but since liquidity is always valued in times of market stress, will struggle to fully meet the demands of the global market.

So as we leave the summer, markets seem to trade from hour to hour, event to event, in a cycle of fear and relief as each near disaster is avoided. But what are we waiting for? Monetary policy cannot speed up structural adjustment. That takes time, and in the interim, the best thing we could ask for would be easing from EM central banks. As inflation in these markets eases the closer we get to the end of the year, so will their proclivity and ability to ease policy, generating demand in the half of the world that is still working well.

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U.S. FIXED INCOME

Forecasting the economy and interest rates is difficult enough in normal times, but over the recent period the practice has become downright excruciating. Interest rates are fundamentally a residual of economic growth, the rate setting agenda of central banks, and of course inflation. At this stage of a most unusual recovery, however, interest rates are being driven by a host of other factors. Europe, unconventional policy easing, and fiscal policy come to mind. Indeed, core inflation may be knocking at the door of price stability, but the only discussion with regard to the Fed is when and in what form Bernanke will ease further. That in turn will depend critically upon how events unfold in Europe.

That is not to say that the US does not have its own set of problems. Indeed the broader underperformance of this recovery is consistent with the historical record on economies emerging from massive credit induced recessions. A host of exogenous shocks since the beginning of the year may have been counter productive. However, the take away lessons from these episodes are that the economy has proved less resilient than hoped, and more fragile than believed. That was reinforced by the downward GDP revisions. Now the Euro crisis is reaching a boiling point. With growth prospects in the US already dim, and mounting evidence of a more nefarious slowdown in Europe and the UK taking shape, we suspect any back-up in US rates will be limited. We also suspect we are yet to see the low in yield.

US rates will be driven by several factors over coming weeks. First, is the Euro crisis, one that is no longer consigned to the peripheral countries. Contagion has spread to the core, Greek default is a matter of when and not if, and solvency concerns among European banks have intensified. The knock-on effects may be difficult to quantify, but the risks range from bad to catastrophic. An increasingly likely outcome is that the US emerges as the preferred safe-haven currency and Treasuries the preferred safe haven asset.

Second, the Fed will provide more accommodation the timing and nature of which will depend on events in Europe. If the crisis in Europe continues to escalate into the September FOMC meeting, 10 yr rates could be below 1.75%. If a Greek default occurs and is not adequately addressed by authorities, yields would likely be even lower. That would make a mockery of the rationale for an operation Twist, a policy move designed to flatten and lower the yield curve to promote credit demand (regardless of the residual harm it may impose on banks). The same can be said of lowering interest on reserves which, like operation twist, is merely tinkering around the edges. In that case we suspect the Fed would keep their powder dry and focus on numerical policy targets for growth, unemployment, or both. Either way, however, the path of least resistance over the near term is for yields to move lower.

Finally, and to the dismay of the Obama Administration, events in Europe transcend US efforts to insulate the economy from knock-on effects from Europe. Economic fundamentals may eventually assume more prominence in setting the direction for rates. However, this is not one of those times, and it is unlikely to be the case until clarity emerges on the end game in Europe, one that is fast approaching.

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U.S. FIXED INCOME OUTLOOK

	Spot Rate	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00
3-mth T-Bill Rate (%)	0.01	0.09	0.00	0.05	0.07	0.10	0.10	0.10	0.10	0.10	0.15	0.80	1.10
2-yr Govt. Bond Yield (%)	0.19	0.82	0.46	0.20	0.20	0.20	0.25	0.25	0.50	0.80	0.95	1.15	1.55
5-yr Govt. Bond Yield (%)	0.84	2.27	1.76	0.90	0.90	1.00	1.25	1.40	1.55	1.65	1.70	1.95	2.10
10-yr Govt. Bond Yield (%)	1.91	3.47	3.16	1.90	1.75	2.00	2.40	2.65	2.75	2.75	2.80	3.00	3.25
30-yr Govt. Bond Yield (%)	3.23	4.51	4.38	3.05	3.00	3.25	3.75	3.90	4.00	4.05	4.10	4.20	4.30
10-yr-2-yr Govt. Spread (%)	1.72	2.65	2.70	1.70	1.55	1.80	2.15	2.40	2.25	1.95	1.85	1.85	1.70

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period. Source: Bloomberg, TDBG

CANADIAN FIXED INCOME

Although the Canadian economy has benefited from superior fundamentals and has led many other developed market economies in the recovery, the combination of strengthening international headwinds and domestic fatigue are expected to restrain economic growth over the balance of the year and into 2012. Our forecast for real GDP growth of 1.9% over 2011H2 and 2.2% next year will slow the rate at which spare capacity is being absorbed and help core inflation subside. In addition to a weaker growth trajectory, the downside risks that shroud the outlook remain firmly in place, and in some cases, have intensified. While these concerns were reflected in the recent parliamentary testimony by Governor Carney, the communiqué accompanying the September Fixed Announcement Date (FAD) suggested that the theme of lower for longer would prevail but ultimately the next move in the overnight rate would be higher. As a result of these developments, **we have pushed back our expectation for the next 25 basis point hike to March 2013.**

Once the Bank returns to the table in March, we expect two additional 25 basis point hikes over the first half of the year. The Bank is then expected to keep pace with the Federal Reserve over the second half of 2013 in taking the overnight rate higher by an additional 75 basis points to a year-end level of 2.50%. In 2014, the Bank is forecast to hike the overnight rate by an additional 100 basis points to a level of 3.50%.

With the Bank firmly on the sidelines, bond yields across the curve are expected to remain at very low levels over the balance of the year and for most of 2012. Given the current starting point of record low yields, the underlying trend will nevertheless be to the upside. These moves are expected to be more pronounced for longer-dated maturities early next year before policy expectations pull the front end higher. As a result, the curve is expected to gradually steepen from its current level before resuming its flattening trend towards the end of 2012.

The clear risk to this forecast is if conditions in the global economy continue to deteriorate. The obvious catalysts are ongoing market turmoil caused by events in Europe and if the US economy slips back into recession. Neither of these events is built into our base case forecast, but if they are realized, we expect to see longer-term yields fall further into record territory while the front end will move further to price in a cut in the overnight rate. Short of a disruption in the core funding market or a very severe recession in the US, we would lean against expectations for a lower overnight rate.

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CANADIAN FIXED INCOME OUTLOOK

	Spot Rate	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Overnight Target Rate (%)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75	2.00	2.50
3-mth T-Bill Rate (%)	0.89	0.96	0.90	0.90	0.90	0.90	0.90	0.95	1.00	1.30	1.80	2.10	2.60
2-yr Govt. Bond Yield (%)	0.85	1.83	1.59	0.80	0.80	0.85	0.90	1.00	1.40	1.90	2.30	2.70	3.10
5-yr Govt. Bond Yield (%)	1.35	2.77	2.33	1.30	1.40	1.50	1.75	2.05	2.20	2.40	2.70	3.10	3.40
10-yr Govt. Bond Yield (%)	2.12	3.35	3.11	2.15	2.05	2.30	2.65	3.05	3.30	3.50	3.60	3.70	3.90
30-yr Govt. Bond Yield (%)	2.80	3.76	3.55	2.65	2.60	2.80	3.30	3.55	3.75	3.83	3.85	4.00	4.10
10-yr-2-yr Govt. Spread (%)	1.27	1.52	1.52	1.35	1.25	1.45	1.75	2.05	1.90	1.60	1.30	1.00	0.80
Canada-U.S. Spreads													
3-mth T-Bill Rate (%)	0.88	0.87	0.90	0.85	0.83	0.80	0.80	0.85	0.90	1.20	1.65	1.30	1.50
2-yr Govt. Bond Yield (%)	0.66	1.01	1.13	0.60	0.60	0.65	0.65	0.75	0.90	1.10	1.35	1.55	1.55
5-yr Govt. Bond Yield (%)	0.51	0.50	0.57	0.40	0.50	0.50	0.50	0.65	0.65	0.75	1.00	1.15	1.30
10-yr Govt. Bond Yield (%)	0.21	-0.12	-0.05	0.25	0.30	0.30	0.25	0.40	0.55	0.75	0.80	0.70	0.65
30-yr Govt. Bond Yield (%)	-0.43	-0.75	-0.83	-0.40	-0.40	-0.45	-0.45	-0.35	-0.25	-0.22	-0.25	-0.20	-0.20

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period. Source: Bloomberg, TDBG

U.K. FIXED INCOME

Over the last month, the UK data came in softer than we expected while Eurozone frictions materialized as expected. We do not expect Greece to default this month, but do see a strong risk between the December to March period. We are therefore very comfortable with our change of view last month that sees the Bank of England restarting asset purchases by February 2012. Developments over the last month have increased the chance that this could come this year, but we would still need to see further downside risks become realities before the MPC would turn to QE in 2011.

Short of an immediate banking crisis or economic collapse in the Eurozone, the MPC must still deal with the fact that the CPI data to be reported in September and October will show a sharp acceleration towards 5.0%. The soft activity data and pullback in commodity prices in recent months suggests it is no longer likely inflation will breach the 5.0% level, but the utility price hikes in August and September will still push inflation higher. The 2.0% target is more than a year away, but inflation will start to fall in November, making easing more possible, and will fall below 4% in 2012Q1.

The sharp decline in the Services PMI in September from 55.4 to 51.1 is the main change in the data over the last month. The MPC's August *Inflation Report* saw inflation falling slightly below target in the medium-term and flat-lining, implying that without better growth or stimulus, the MPC would undershoot their target. If the PMI decline is sustained into the November report, the MPC will be hard pressed not to forecast inflation falling further below target in the medium-term and perhaps even trending lower over time, making easing very likely.

The takeaway for gilts as we said last month is that we have yet to see the bottom in yields. 2s ultimately have the least far to go, but we think it is only a matter of time before they trade through the 0.50% Bank rate. We believe 5s will trade sub-1.00% and 10s sub 2.00%. The flight to safety from the Eurozone crisis is likely to be mostly felt in the 5y-10y sector of the curve, while the eventual asset purchases from the BoE are likely to be concentrated in the 8y-25y sector of the curve, where new issuance leaves them with plenty of opportunities to buy. The overlap in the 10y sector leaves it primed to outperform the 5y and 30y wings.

If market fears grow or gilts move in sympathy with any "Twist" operation in the US and bring yields to our targets on their own, the MPC will have to debate whether QE would be needed at that point. Moreover, they will have to debate whether buying into the long end where pension funds prevail would stimulate any economic growth. The optics for easing now are bad, but the fundamentals are worse and argue there will be easing.

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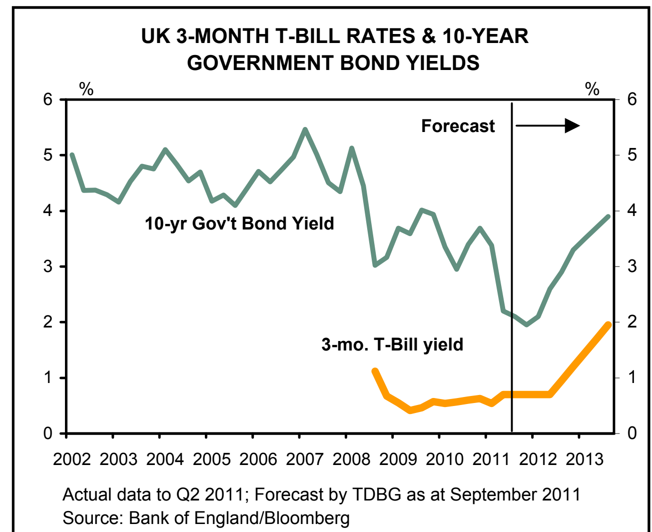

Actual data to Q2 2011; Forecast by TDBG as at September 2011
Source: Bank of England/Bloomberg

U.K. FIXED INCOME OUTLOOK

	Spot Rate	2011				2012				2013			
	12/19/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Bank Rate Target (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75
3-mth T-Bill Rate (%)	0.52	0.63	0.54	0.70	0.70	0.70	0.70	0.70	0.95	1.20	1.45	1.70	1.95
2-yr Gilt Yield (%)	0.54	1.36	0.83	0.50	0.45	0.50	0.70	1.00	1.40	1.80	2.10	2.30	2.50
5-yr Gilt Yield (%)	1.12	2.44	2.07	1.10	1.00	0.90	1.30	2.00	2.50	2.90	3.15	3.30	3.40
10-yr Gilt Yield (%)	2.21	3.69	3.38	2.20	2.10	1.95	2.10	2.60	2.90	3.30	3.50	3.70	3.90
30-yr Gilt Yield (%)	3.57	4.36	4.29	3.55	3.35	3.25	3.60	4.10	4.10	4.30	4.30	4.30	4.30
10-yr-2-yr Gilt Spread (%)	1.74	2.33	2.55	1.70	1.65	1.45	1.40	1.60	1.50	1.50	1.40	1.40	1.40

f: Forecast by TD Securities as of September 12, 2011; All forecasts are for end of period. Source: Bloomberg, TD Securities

AUSTRALIAN FIXED INCOME

The Australian fixed income market goes from strength to strength as "safe haven" low risk and relatively high yields are sought after by domestic and offshore investors during these volatile times. As global uncertainty is expected to linger for much longer, we have lowered our bond yield forecasts across the forecast horizon. This is not to say that we predict sharply lower cash rates – the hurdles remain high at this stage – but the inflow into Australia's relatively high yield and AAA-rated low risk bonds has been much heavier than even we expected. As our US bond forecasts have also been slashed, we expect the US-Australian 10 year bond spread to remain a relatively wide and attractive 200-250bp over the forecast horizon.

At the very short end, the OIS strip continues to price in aggressive cash rate cuts over the next twelve months. These expectations are not supported by upbeat RBA rhetoric, as the Bank regularly voices concerns about inflation pressures. But, outsized focus on the underperforming part of the two-speed economy (retail and manufacturing) means the RBA is expected to "do something" to support those sectors. We believe the government is in a strong position to delay the return to surplus in 2012/13 to provide support, and slight fiscal slippage is highly unlikely to jeopardize Australia's rock-solid AAA credit rating.

Given material downside risks to global growth we now have the RBA on hold over the next two years. Our prior +25bp for March 2012 has been dropped from the cycle, crystallizing our prior "risk case" that no further tightening is required. Looking ahead into 2013, a low cash rates for longer plus a pickup in global growth are expected to lure the consumer and housing sectors back to above trend growth, and we expect the RBA to counter with two more +25bp adjustments to 5.25% by end-2013, a 25bp reduction compared with last month's projections.

We project the entire yield curve to trade sub-cash until the second half of next year. We forecast a mild sell-off at the longer end compared with 2-3 year yields, flattening the curve, but we caution that this is a more story for the final months of 2012. As long as offshore and domestic investors are drawn to Australia's "safe haven" currency and bond markets, we cannot construct a case for a broad-based selloff in the bond market for quite some time.

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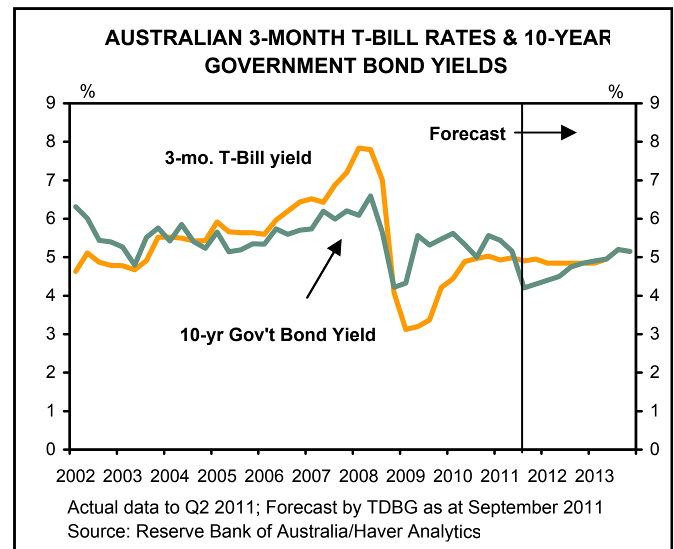

Actual data to Q2 2011; Forecast by TDBG as at September 2011
Source: Reserve Bank of Australia/Haver Analytics

AUSTRALIA FIXED INCOME OUTLOOK													
	Spot Rate	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Cash Target Rate (%)	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.00	5.25
3-mth Bank Bill Rate (%)	4.86	4.89	5.00	4.90	4.95	4.85	4.85	4.85	4.85	4.85	4.95	5.20	5.15
3-yr Govt. Bond Yield (%)	3.55	5.03	4.68	3.60	3.70	3.90	4.00	4.25	4.55	4.75	4.85	5.10	5.15
5-yr Govt. Bond Yield (%)	3.71	5.23	4.77	3.80	3.95	4.15	4.25	4.50	4.75	4.80	4.90	5.15	5.15
10-yr Govt. Bond Yield (%)	4.14	5.48	5.15	4.20	4.30	4.40	4.50	4.75	4.85	4.90	4.95	5.20	5.15
10-yr-3-yr Govt. Spread (%)	0.59	0.45	0.47	0.60	0.60	0.50	0.50	0.50	0.30	0.15	0.10	0.10	0.00

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period. Source: Bloomberg, TDBG

NEW ZEALAND FIXED INCOME

New Zealand fixed income markets have underperformed the recent global market rally, with 10 year yields unchanged at around 4.50% and +35bp above the Australian equivalent. Short end yields are also more or less unchanged at around 3%, leaving the yield curve at around +150bp. Outsized volatility in global financial markets, adverse headwinds from the 'northern hemisphere' and downside risks to global growth forecasts are expected to stay the RBNZ's hand this month, but as there remain widespread expectations that the next move remains up for the cash rate, the bond market is set to underperform for some time.

While the short-end OIS strip for Australia, UK, Canada and Europe continues to price in cash rate cuts, hikes are still priced in for New Zealand, even if scaled back substantially compared to a month ago. The RBNZ is in a classic "will do" versus "should do" bind, as domestic activity has been quite robust in the first half of 2011 despite the devastating February earthquake, but outsized financial market volatility prevents the RBNZ from reversing the self-proclaimed "insurance" rate cut this month. The Bank is widely expected to take the 'safe' option by making itself the smallest target possible by leaving the cash rate unchanged at the record low of 2.5%.

Ahead of what the RBNZ says and does later this month, we have tweaked our OCR profile to +25bp in October, followed by +25bp in December, maintaining our prior year-end target of 3%. We also remain of the view that the Bank could/should pause for the first half of 2012 to assess the impact of "tightening" to date. If the recovery continues and global headwinds abate as we expect, then a more traditional tightening cycle can commence from June 2012, for an end-2012 cash rate target of 3.75% and end-2013 cash rate target of 4.50%. Subsequently, we expect the entire yield curve to flatten over the forecast horizon, expecting 10yr yields to drift up to 5.10% (was 5.35% a month ago) by end 2012, and are expected to continue trading at a discount to Australia.

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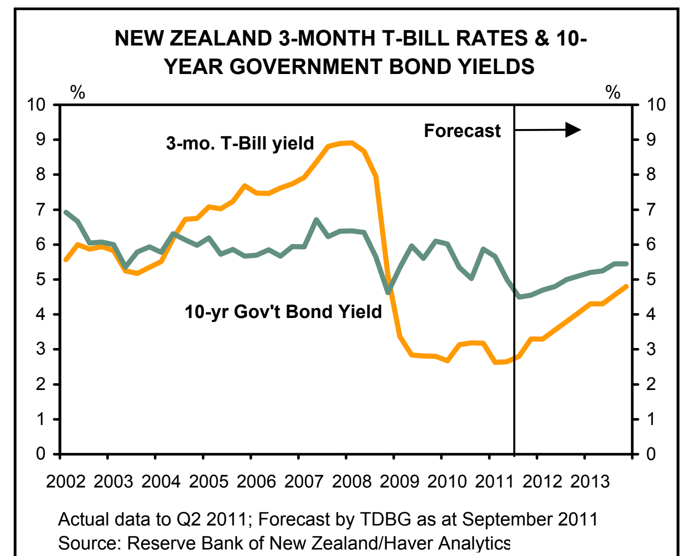

Actual data to Q2 2011; Forecast by TDBG as at September 2011
Source: Reserve Bank of New Zealand/Haver Analytics

NEW ZEALAND FIXED INCOME OUTLOOK

	Spot Rate	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Official Cash Rate (%)	2.50	2.50	2.50	2.50	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.25	4.50
3-mth Bank Bill Rate (%)	2.96	2.63	2.65	2.80	3.30	3.30	3.55	3.80	4.05	4.30	4.30	4.55	4.80
2-yr Govt. Bond Yield (%)	3.00	3.45	3.22	3.00	3.25	3.50	3.75	4.00	4.25	4.75	4.75	5.00	5.00
4-yr Govt. Bond Yield (%)	3.51	4.40	4.03	3.70	3.80	4.00	4.25	4.50	4.75	5.15	5.15	5.25	5.25
10-yr Govt. Bond Yield (%)	4.48	5.66	5.00	4.50	4.55	4.70	4.80	5.00	5.10	5.20	5.25	5.45	5.45
10-yr-2-yr Govt. Spread (%)	1.48	2.21	1.78	1.50	1.30	1.20	1.05	1.00	0.85	0.45	0.50	0.45	0.45

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period. Source: Bloomberg, TDBG

U.S. DOLLAR

The USD has negotiated a downgrade to its sovereign credit rating, a downgrade to its growth outlook, weak job creation and speculation of more Fed easing to emerge little changed against most of its major currency peers over the course of the past month. Once again, it is important to recall that while fundamental prospects in the US economy are fraught with uncertainty, the outlook elsewhere remains – mostly – just as uncertain and fraught with risks.

The US economy is close to stall speed. The OECD recently slashed its outlook for US growth in the second half of this year. Fed officials continue to beat back talk of a renewed recession but, at the same time, appear to be moving ever closer to providing more support for the economy.

Fed Chairman Bernanke's keynote speech at a Fed event in Jackson Hole last month indicated that policy makers would mull options at an extended FOMC meeting to be held over September 20/21st. Further easing measures, the aim of which may be to get longer-term rates lower, could be announced following that meeting. At the same time, the US administration is trying to boost jobs with new spending initiatives.

The prospect of more monetary and fiscal stimulus has not affected the USD significantly so far. Since the Jackson Hole speech, the USD has, in fact risen against nearly all of its major currency counter-parts (with the exception of the KRW and AUD).

We remain a little more constructive on the USD's outlook through the end of the year at least because slow global growth and heightened uncertainty leave the major currencies vulnerable to their own economic and monetary policy adjustments. Wobbly risk appetite may also provide some underpinning for the USD, if only because the pool of viable "safe havens" is slowly shrinking and, in times of heightened uncertainty, the risk of holding liquid USD assets is often seen as less risky than the alternatives.

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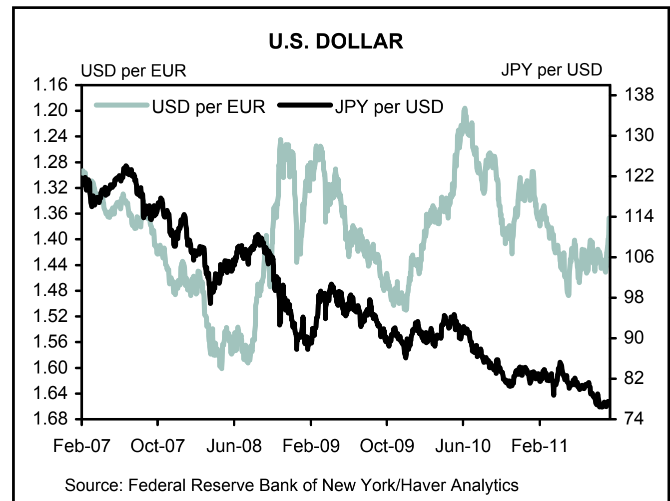
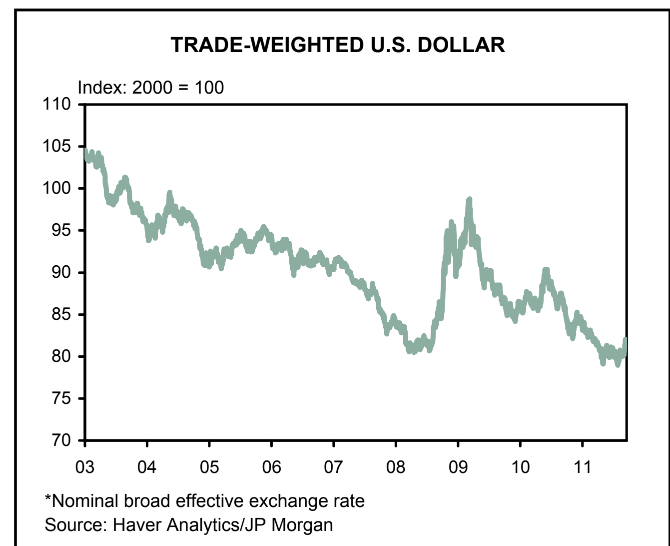


Source: Federal Reserve Bank of New York/Haver Analytics



*Nominal broad effective exchange rate
Source: Haver Analytics/JP Morgan

U.S. DOLLAR FUNDAMENTALS			
Interest Rate Spreads	–	**Business Cycle**	N
Inflation Differential	–	**Fiscal Balances**	–
Current Account	N	**Politics**	N
Legend: - is negative, + is positive, N is neutral for currency			

U.S. DOLLAR OUTLOOK

	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Trade-wtd. USD	95.4	96.5	94.7	94.8	95.0	94.0	93.3	92.5	91.9	92.9	92.4	92.7	92.2
JPY per USD	77.1	83	81	76	76	78	78	83	85	88	88	90	90
USD per EUR	1.366	1.416	1.450	1.410	1.400	1.400	1.400	1.450	1.450	1.420	1.420	1.380	1.380
USD per GBP	1.587	1.603	1.605	1.602	1.556	1.591	1.591	1.667	1.706	1.711	1.711	1.725	1.725

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

CANADIAN DOLLAR

USD/CAD has been stuck in a broad range over the past month, with moves strongly tied to oscillations in risk appetite of the market. Amid the credit concerns in Europe and slowing global growth prospects, investors have paid little attention to anything other than the CAD's negative correlation with risk aversion.

The story that is being largely ignored at the moment is that Canada is not an island, and with the dimming economic landscape for larger trading partners, a weaker Canadian outlook is beginning to emerge (eg a 0.4% fall in Canadian Q2 GDP). As our rates strategy colleagues have pointed out, the key message from the BoC recently has turned to reflect the one south of the border; interest rate policy is set to remain lower for longer.

Nevertheless, in line with recent trends where the CAD is largely viewed as a barometer for risk, we think the CAD will continue to be less sensitive to domestic data and perhaps more attuned to the implications of US fundamental releases, with a special focus on policy announcements from Washington and the Fed. Major developments in the euro zone credit saga also have the potential to fuel strong risk sentiment – and thereby a bigger move in the CAD.

As global growth prospects wane and headline risk drives volatility through the fall season, we can expect trading in risk assets to remain quite choppy – a setting where the CAD should lose support. In this context we continue to see a greater potential of a push higher in the USD/CAD through the upper resistance of the range toward 1.02/1.04 into year end.

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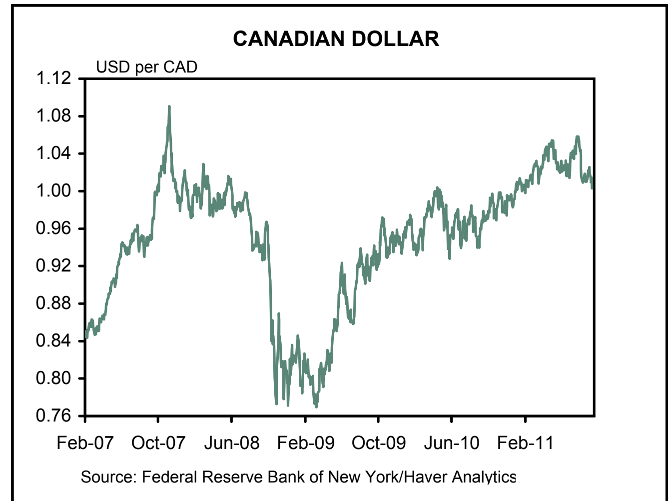
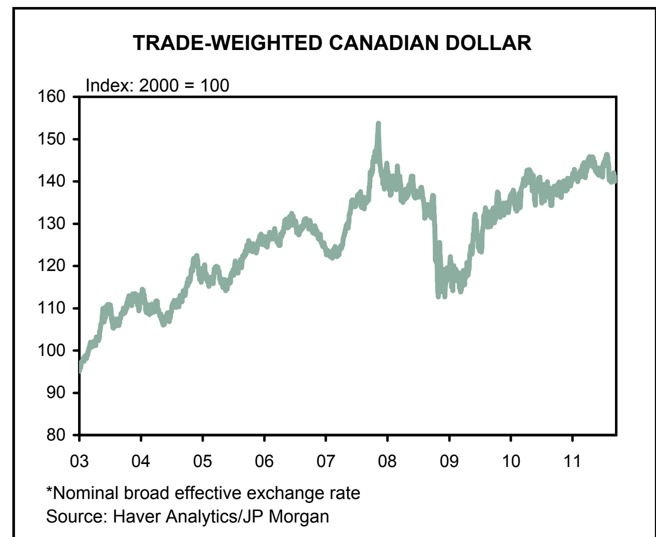
CANADIAN DOLLAR



Source: Federal Reserve Bank of New York/Haver Analytics

TRADE-WEIGHTED CANADIAN DOLLAR



*Nominal broad effective exchange rate
Source: Haver Analytics/JP Morgan

CANADIAN DOLLAR FUNDAMENTALS

Interest Rate Spreads	+	**Business Cycle**	+
Inflation Differential	+	**Fiscal Balances**	+
Current Account	N	**Politics**	N

Legend: - is negative, + is positive, N is neutral for currency

CANADIAN DOLLAR OUTLOOK

	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CAD per USD	0.999	0.971	0.963	1.010	1.042	1.000	0.971	0.952	0.952	0.962	0.962	0.971	0.971
USD per CAD	1.002	1.030	1.038	0.990	0.960	1.000	1.030	1.050	1.050	1.040	1.040	1.030	1.030
JPY per CAD	77	86	84	75	73	78	80	87	89	92	92	93	93
CAD per EUR	1.364	1.374	1.397	1.424	1.458	1.400	1.359	1.381	1.381	1.365	1.365	1.340	1.340
CAD per GBP	1.58	1.556	1.547	1.618	1.620	1.591	1.545	1.587	1.625	1.645	1.645	1.675	1.675

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

EURO

The EUR has been one of the worst-performing currencies over the past month overall. Slowing domestic growth momentum, a central bank in transition and – perhaps especially – signs that the Europe's procrastinating politicians have still yet to get fully to grips with the unfolding sovereign credit problem and all its inherent risks continue to weigh on the EUR's outlook.

EUR/USD has been range bound for much of the past three months between 1.38/1.47 at the extreme. More regularly, the market has been trapped in a band inside 1.40/1.45. At writing, the single currency is trading well below 1.40 – about where we have expected the EUR to end the year.

Downside risks are perhaps rising for the single currency as Greece continues to struggle to get its fiscal house in order, raising concerns about the timely arrival of further financial support from the EU/IMF. Politicians also appear to be dragging their feet approving the structure of the bail out vehicle.

Greek short-term interest rates have surged – 2-year government bond yields have reached 55% – and credit default swap spreads have rising sharply, reflecting rising investor worries about a disorderly credit event. With the risk of a systemic spill-over into the euro zone banking system, we continue to look for the European authorities to do the right thing – eventually. The road ahead for the peripheral economies may become even bumpier in the interim, however.

Meanwhile, the European Central Bank (ECB) is in transition on a number of levels. President Trichet hands over the reins to Mario Drahgi in October. The ECB's monetary policy stance is also moderating, reflecting easing inflation pressures and the intensifying risk of slower growth ahead in the euro zone. The clear softening in the ECB's rhetoric has led the market to price in at least a 25bps cut by year end and further easing next year, in line with our call for a December cut.

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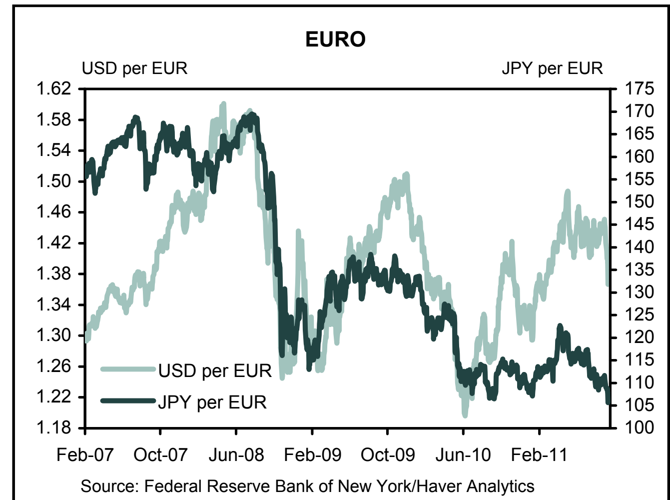
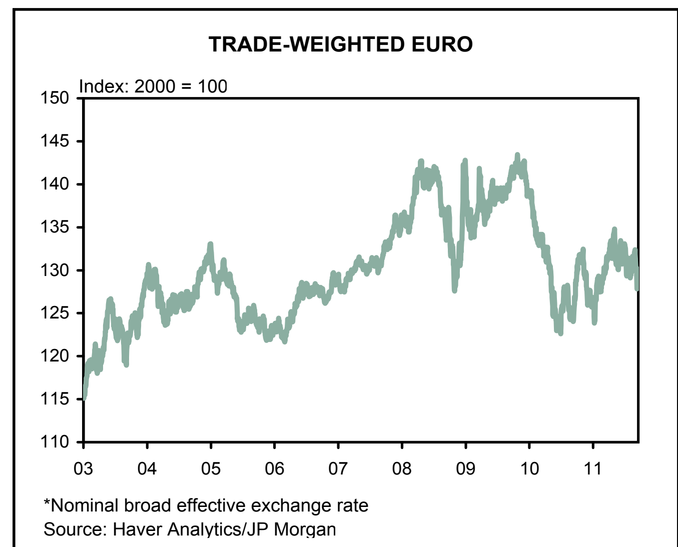


Source: Federal Reserve Bank of New York/Haver Analytics



*Nominal broad effective exchange rate
Source: Haver Analytics/JP Morgan

EURO FUNDAMENTALS

Interest Rate Spreads	N	**Business Cycle**	N
Inflation Differential	N	**Fiscal Balances**	–
Current Account	+	**Politics**	–

Legend: - is negative, + is positive, N is neutral for currency

EURO OUTLOOK

	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USD per EUR	1.366	1.416	1.450	1.410	1.400	1.400	1.400	1.450	1.450	1.420	1.420	1.380	1.380
JPY per EUR	105	118	117	107	106	109	109	120	123	125	125	124	124
GBP per EUR	0.861	0.883	0.903	0.880	0.900	0.880	0.880	0.870	0.850	0.830	0.830	0.800	0.800
CAD per EUR	1.364	1.374	1.397	1.424	1.458	1.400	1.359	1.381	1.381	1.365	1.365	1.340	1.340

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

JAPANESE YEN

We expect the JPY to remain at relatively high levels over the course of the next few months. While the domestic economy continues to struggle to generate growth, the currency has proven to be immune to domestic economic headwinds. The JPY remains a prime "safe haven" in a shrinking refuge universe for investors considering Japan's strong external account position.

With the Swiss authorities successfully – for now – enforcing an effective "no buy zone" around the CHF, volatility in global asset markets will keep the JPY well supported. Investors have few other safe haven bolt holes to exploit in times of uncertainty.

Aggressive intervention by the Bank of Japan in August indicates that the Japanese authorities are alert to the risks and threats of a high JPY, however. We doubt the Japanese authorities would contemplate a similar arrangement to the ceiling effectively imposed on the CHF by the Swiss National Bank but further aggressive intervention may be required to steady USD/JPY at or close to current levels.

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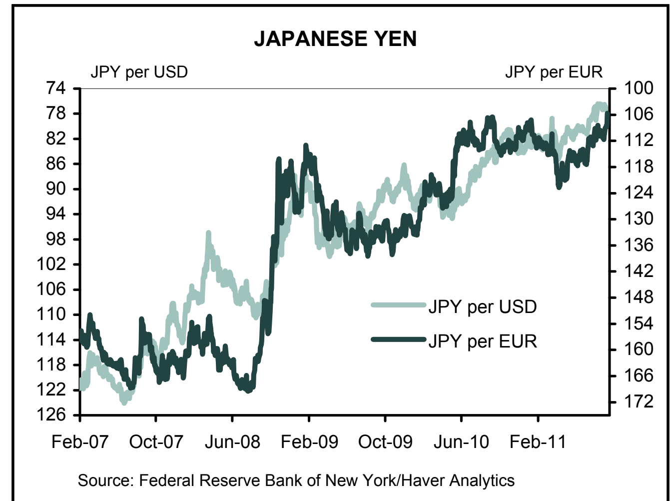
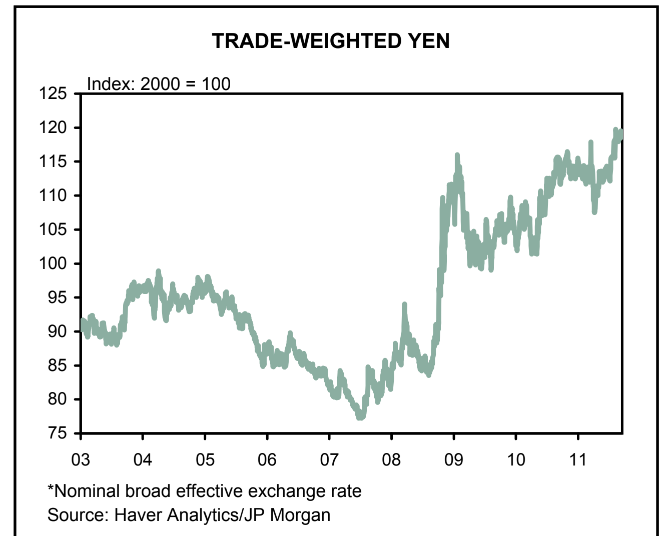


Source: Federal Reserve Bank of New York/Haver Analytics



*Nominal broad effective exchange rate
Source: Haver Analytics/JP Morgan

YEN FUNDAMENTALS

Interest Rate Spreads	–	**Business Cycle**	N
Inflation Differential	–	**Fiscal Balances**	–
Current Account	+	**Politics**	–

Legend: - is negative, + is positive, N is neutral for currency

JAPANESE YEN OUTLOOK

	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
JPY per USD	77	83	81	76	76	78	78	83	85	88	88	90	90
JPY per EUR	105	118	117	107	106	109	109	120	123	125	125	124	124
JPY per GBP	122	133	129	122	118	124	124	138	145	151	151	155	155
JPY per CAD	77	86	84	75	73	78	80	87	89	92	92	93	93

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

U.K. POUND

Sterling has reversed the stronger mid-year performance over the past month. Domestic data releases suggest that the economy has slowed and while inflationary pressures remain relatively high, a turn down in inflation later this year may give the Bank of England (BoE) an opportunity to ease policy again.

Sterling remains one of the weakest major currencies in real effective terms and real interest rates in the UK are deeply negative and well below the UK's G7 peers. With BoE monetary policy holding at very accommodative levels, the UK government had expected supportive financial conditions to provide the economy with a little more momentum, even as it tightened fiscal policy, via export growth.

Exports have improved but with growth in the developed world teetering, the boost to the broader economy may not be sustained. Domestic demand remains relatively weak, meanwhile. With growth prospects still soft and inflation likely to peak later this year, the BoE may resort to renewed asset purchases in the first quarter of next year (through an earlier start is possible if the economy continues to slide).

We think the prospect of monetary policy easing will keep the GBP tone defensive over the balance of this year though losses may well be mitigated by the uncertain outlook and the risk of monetary accommodation being introduced elsewhere in the developed world.

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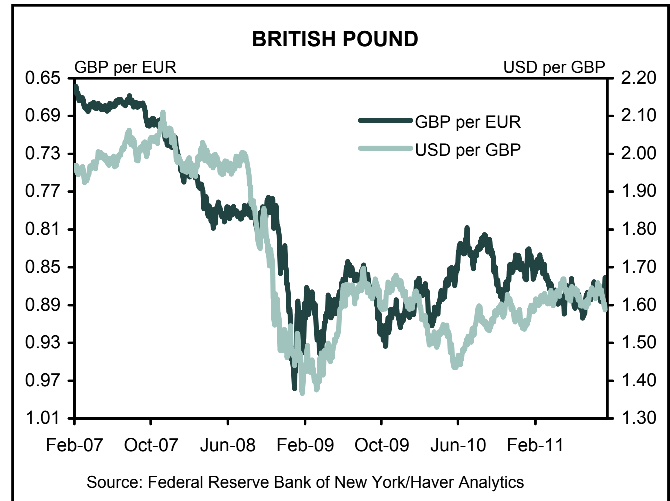
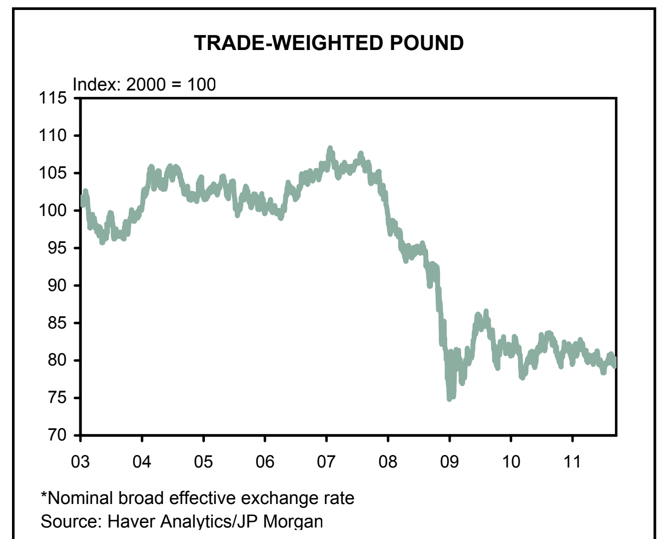


Source: Federal Reserve Bank of New York/Haver Analytics



*Nominal broad effective exchange rate
Source: Haver Analytics/JP Morgan

POUND FUNDAMENTALS			
Interest Rate Spreads	-	**Business Cycle**	N
Inflation Differential	+	**Fiscal Balances**	–
Current Account	–	**Politics**	–

Legend: - is negative, + is positive, N is neutral for currency

UNITED KINGDOM POUND													
	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USD per GBP	1.587	1.603	1.605	1.602	1.556	1.591	1.591	1.667	1.706	1.711	1.711	1.725	1.725
GBP per EUR	0.861	0.883	0.903	0.880	0.900	0.880	0.880	0.870	0.850	0.830	0.830	0.800	0.800
CAD per GBP	1.58	1.56	1.55	1.62	1.62	1.59	1.54	1.59	1.62	1.65	1.65	1.67	1.67

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

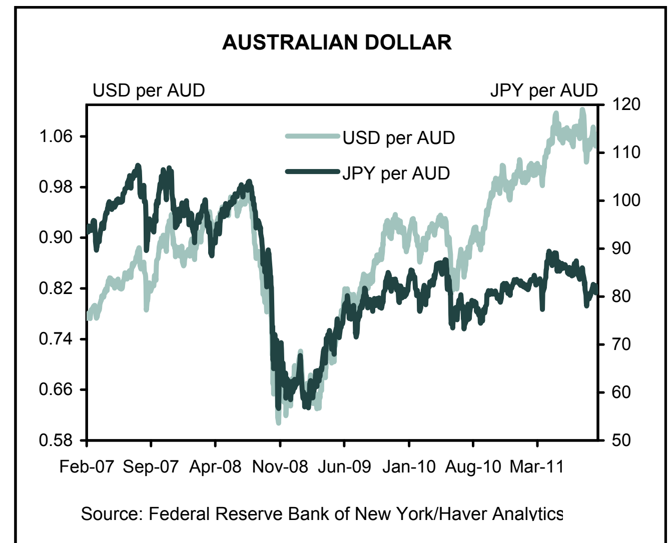
AUSTRALIAN DOLLAR

There was a four-cent range in the AUD last month, bottoming out at USD1.03 and the topside limited to USD1.075 (the record high was USD1.108 in late July). Within that range, volatility has been extreme in recent weeks, driven by nervousness over defaults and bailouts in Europe dovetailed into soft US data and uncertainty over whether the Federal Reserve has tools to boost growth. In the meantime, however, there has been resilient activity closer to home. Exports recovered nicely once the flood-affected dent in activity passed, and strong trade linkages to the outperforming Asian region has put a solid floor under the AUD despite very uncertain times.

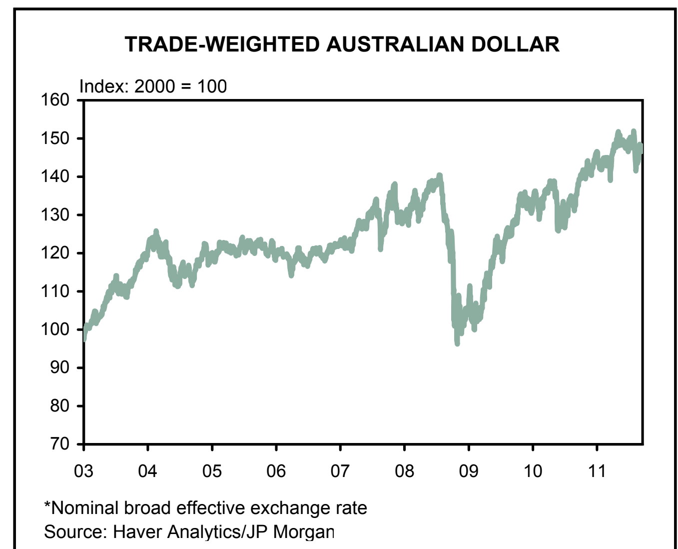
While bond yields have revisited 2008 crisis levels, the AUD has barely traded below parity all year (in 2008 it sank to USD0.60). Indeed there is a new disconnect between the OIS market and the AUD - while both fell markedly in early August (after the risk-off session in the wake of the US credit-rating downgrade) the AUD swiftly recovered despite cash rate expectations remaining firmly in the negative.

We expect no change in the cash rate for the foreseeable future (which requires a considerable correction in the OIS strip) but not for the AUD to rally substantially in the near-term. The OIS market is mis-priced, the AUD is not, so we leave our year-end target of USD1.04 unchanged. This "spot forecast" does not rule out the AUD trading within our "preferred" trading range of USD1.03-USD1.10 between now and year end.

As G7 cash rates are expected to remain on hold for quite some time, if not outright easing from the ECB and BOE, our AUD forecasts have been tweaked higher for 2012 and 2013 in particular. Our existing forecast of a return to parity by mid-2012 has been pushed back to Q1 2013, and our end-2012 forecast has been upgraded from USD0.94 to USD1.02. We do not expect sub-USD0.90 prints until the second half of 2013, when the financial markets start to price in the tightening process for the US Federal Reserve, eventually boosting the USD.



Source: Federal Reserve Bank of New York/Haver Analytics



*Nominal broad effective exchange rate
Source: Haver Analytics/JP Morgan

AUSTRALIAN DOLLAR FUNDAMENTALS			
Interest Rate Spreads	+	**Business Cycle**	+
Inflation Differential	+	**Fiscal Balances**	+
Current Account	N	**Politics**	N

Legend: - is negative, + is positive, N is neutral for currency

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AUSTRALIAN DOLLAR OUTLOOK

	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USD per AUD	1.034	1.033	1.072	1.050	1.040	1.040	1.030	1.030	1.020	1.000	1.000	0.980	0.960
JPY per AUD	79.74	85.86	86.31	79.80	79.04	81.12	80.34	85.49	86.70	88.00	88.00	88.20	86.40
AUD per CAD	0.968	0.997	0.968	0.943	0.923	0.962	1.000	1.019	1.029	1.040	1.040	1.051	1.073
NZD per AUD	1.261	1.356	1.293	1.250	1.253	1.253	1.256	1.256	1.259	1.235	1.235	1.225	1.215

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

NEW ZEALAND DOLLAR

The kiwi dollar followed a similar four-cent range as the AUD over the last month, i.e. the flipside to risk on/ risk off USD trading, between USD0.815 and USD0.855. The AUDNZD cross-rate traded at around 1.26 for most of the past month, briefly popping up to 1.28 on strong AUD GDP data. The NZD remains historically strong against the AUD as the RBNZ tightening bias remains clear, even if uncertain economic times is expected to delay the next tightening from this month to October or even December. But at no stage, even during the most dire risk-off trading session in recent months, has the OIS strip ever priced lower cash rates for New Zealand.

The domestic picture for New Zealand is as positive as we've seen for some time. Higher than expected Q1 (and likely Q2) GDP and Q2 CPI confirmed that the economy coped well despite one of the worst natural disasters for some time (the 22 February earthquake in Christchurch) with solid consumer spending and pricing power also a lot more resilient than expected. And this is ahead of the massive Christchurch rebuilding project on the cards for 2012. So while the OIS market prices in lower cash rates for Europe, Canada and Australia on global gloom, the next move remains up for the RBNZ.

As G20 central banks are expected to pause for longer if not actually reduce cash rates, our NZD forecasts have also been tweaked higher for 2012 and 2013 in particular. Our sub-USD0.80 forecast that was scheduled for mid-2012 is now expected to materialize in Q3 2013, with our end-2013 forecast upgraded considerably from USD0.65 to USD0.79 as the cash rate is expected to climb to 4.5%. While we expect the AUDNZD to trade around 1.26 through to next year, we expect NZD outperformance for 2013, targeting 1.22 by end-2013.

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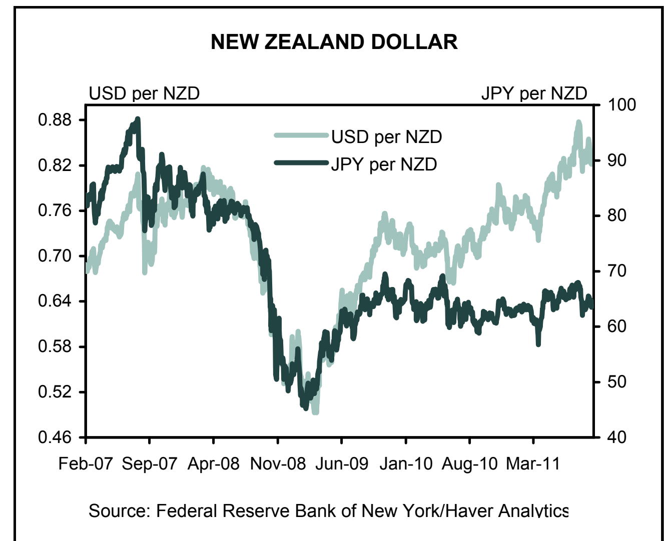
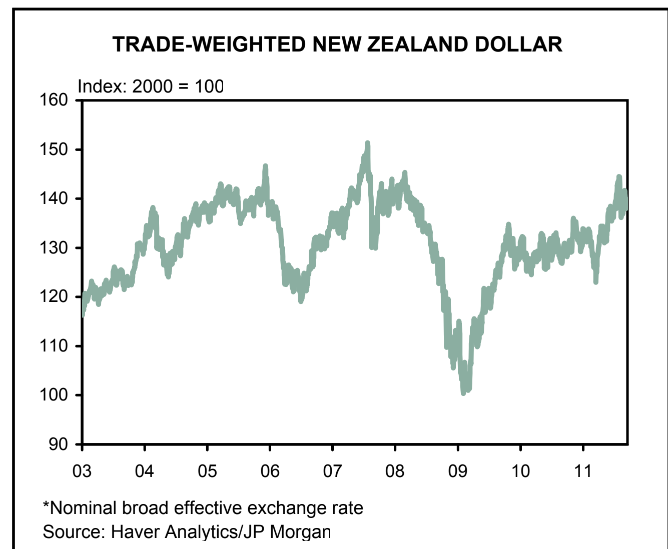


Source: Federal Reserve Bank of New York/Haver Analytics



*Nominal broad effective exchange rate
Source: Haver Analytics/JP Morgan

NEW ZEALAND DOLLAR FUNDAMENTALS			
Interest Rate Spreads	+	**Business Cycle**	N
Inflation Differential	+	**Fiscal Balances**	N
Current Account	–	**Politics**	N
Legend: - is negative, + is positive, N is neutral for currency			

NEW ZEALAND DOLLAR OUTLOOK

	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
USD per NZD	0.821	0.762	0.829	0.840	0.830	0.830	0.820	0.820	0.810	0.810	0.810	0.800	0.790
JPY per NZD	63.25	63.30	66.75	63.84	63.08	64.74	63.96	68.06	68.85	71.28	71.28	72.00	71.10
NZD per CAD	1.221	1.353	1.252	1.179	1.157	1.205	1.256	1.280	1.296	1.284	1.284	1.288	1.304
NZD per AUD	1.261	1.356	1.293	1.250	1.253	1.253	1.256	1.256	1.259	1.235	1.235	1.225	1.215

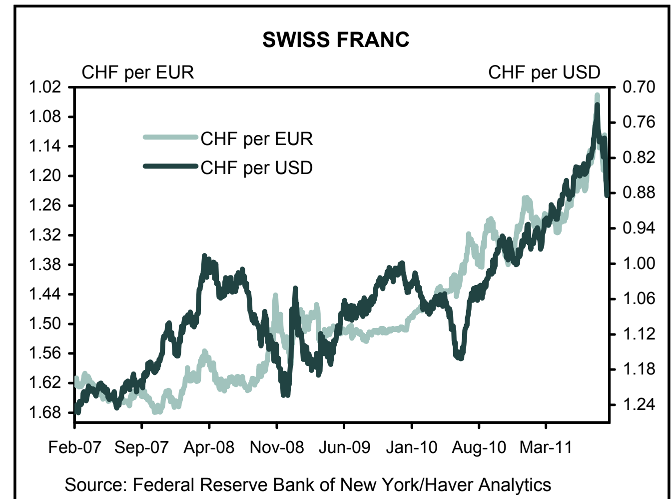
f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

SWISS FRANC

With the heightened sense of risk aversion in the market in recent months, the CHF was driven to extremes as a preferred safe-haven currency. But after being pushed to a peak of 25% higher on the year against the USD, the Swiss National Bank tried various liquidity and monetary techniques before concluding that direct and decisive currency market intervention was the only way to make meaningful impact on devaluing the CHF.

Compared to last year's attempt to devalue the CHF – which ultimately failed – the current round of intervention seems to have a very strong commitment, with the SNB setting a particular floor in the EUR/CHF (at 1.20) and pledging 'unlimited' support for foreign currency purchases to defend it. The inflation environment is also quite different now, as there is less immediate danger of loose policies generating high inflation, lending credibility to the SNB's resolve.

In a more benign global economic environment, interest rates near zero would typically be a deterrent for investors looking to park capital. But with the current turmoil that is unfolding on both sides of the Atlantic, investor focus is about return of capital rather than return on capital, so the CHF's strong correlation with risk aversion should continue to support the franc.



Source: Federal Reserve Bank of New York/Haver Analytics

With this in mind, the CHF pairs (the EUR/CHF in particular) are likely to remain in a fairly narrow range into the end of the year as safe-haven support for the CHF will test the resolve of the SNB to maintain the line in the sand. For the SNB to defend the floor that it has established, however, it will likely have to maintain a high profile for some time, as global pressures that led to the run-up in the CHF show little signs of easing in the near term.

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SWISS FRANC OUTLOOK

	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CHF per USD	0.882	0.919	0.840	0.851	0.857	0.857	0.857	0.841	0.841	0.880	0.880	0.906	0.906
CHF per EUR	1.206	1.301	1.219	1.200	1.200	1.200	1.200	1.220	1.220	1.250	1.250	1.250	1.250
CHF per CAD	0.884	0.947	0.872	0.843	0.823	0.857	0.883	0.883	0.883	0.915	0.915	0.933	0.933

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period; Source: Federal Reserve, Bloomberg, TDBG

SUMMARY FIXED INCOME TABLE													
	Spot Price	2011				2012				2013			
	12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
United States													
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00
3-mth T-Bill Rate (%)	0.01	0.09	0.00	0.05	0.07	0.10	0.10	0.10	0.10	0.10	0.15	0.80	1.10
2-yr Govt. Bond Yield (%)	0.19	0.82	0.46	0.20	0.20	0.20	0.25	0.25	0.50	0.80	0.95	1.15	1.55
5-yr Govt. Bond Yield (%)	0.84	2.27	1.76	0.90	0.90	1.00	1.25	1.40	1.55	1.65	1.70	1.95	2.10
10-yr Govt. Bond Yield (%)	1.91	3.47	3.16	1.90	1.75	2.00	2.40	2.65	2.75	2.75	2.80	3.00	3.25
30-yr Govt. Bond Yield (%)	3.23	4.51	4.38	3.05	3.00	3.25	3.75	3.90	4.00	4.05	4.10	4.20	4.30
10-yr-2-yr Govt. Spread (%)	1.72	2.65	2.70	1.70	1.55	1.80	2.15	2.40	2.25	1.95	1.85	1.85	1.70
Canada													
Overnight Target Rate (%)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75	2.00	2.50
3-mth T-Bill Rate (%)	0.89	0.96	0.90	0.90	0.90	0.90	0.90	0.95	1.00	1.30	1.80	2.10	2.60
2-yr Govt. Bond Yield (%)	0.85	1.83	1.59	0.80	0.80	0.85	0.90	1.00	1.40	1.90	2.30	2.70	3.10
5-yr Govt. Bond Yield (%)	1.35	2.77	2.33	1.30	1.40	1.50	1.75	2.05	2.20	2.40	2.70	3.10	3.40
10-yr Govt. Bond Yield (%)	2.12	3.35	3.11	2.15	2.05	2.30	2.65	3.05	3.30	3.50	3.60	3.70	3.90
30-yr Govt. Bond Yield (%)	2.80	3.76	3.55	2.65	2.60	2.80	3.30	3.55	3.75	3.83	3.85	4.00	4.10
10-yr-2-yr Govt. Spread (%)	1.27	1.52	1.52	1.35	1.25	1.45	1.75	2.05	1.90	1.60	1.30	1.00	0.80
United Kingdom													
Bank Rate Target (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75
3-mth T-Bill Rate (%)	0.52	0.63	0.54	0.70	0.70	0.70	0.70	0.70	0.95	1.20	1.45	1.70	1.95
2-yr Gilt Yield (%)	0.54	1.36	0.83	0.50	0.45	0.50	0.70	1.00	1.40	1.80	2.10	2.30	2.50
5-yr Gilt Yield (%)	1.12	2.44	2.07	1.10	1.00	0.90	1.30	2.00	2.50	2.90	3.15	3.30	3.40
10-yr Gilt Yield (%)	2.21	3.69	3.38	2.20	2.10	1.95	2.10	2.60	2.90	3.30	3.50	3.70	3.90
30-yr Gilt Yield (%)	3.57	4.36	4.29	3.55	3.35	3.25	3.60	4.10	4.10	4.30	4.30	4.30	4.30
10-yr-2-yr Gilt Spread (%)	1.67	2.33	2.55	1.70	1.65	1.45	1.40	1.60	1.50	1.50	1.40	1.40	1.40
Australia													
Cash Target Rate (%)	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.00	5.25
3-mth Bank Bill Rate (%)	4.86	4.89	5.00	4.90	4.95	4.85	4.85	4.85	4.85	4.85	4.95	5.20	5.15
3-yr Govt. Bond Yield (%)	3.55	5.03	4.68	3.60	3.70	3.90	4.00	4.25	4.55	4.75	4.85	5.10	5.15
5-yr Govt. Bond Yield (%)	3.71	5.23	4.77	3.80	3.95	4.15	4.25	4.50	4.75	4.80	4.90	5.15	5.15
10-yr Govt. Bond Yield (%)	4.14	5.48	5.15	4.20	4.30	4.40	4.50	4.75	4.85	4.90	4.95	5.20	5.15
10-yr-3-yr Govt. Spread (%)	0.59	0.45	0.47	0.60	0.60	0.50	0.50	0.50	0.30	0.15	0.10	0.10	0.00
New Zealand													
Cash Target Rate (%)	2.50	2.50	2.50	2.50	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.25	4.50
3-mth T-Bill Rate (%)	2.96	2.63	2.65	2.80	3.30	3.30	3.55	3.80	4.05	4.30	4.30	4.55	4.80
3-yr Govt. Bond Yield (%)	3.00	3.45	3.22	3.00	3.25	3.50	3.75	4.00	4.25	4.75	4.75	5.00	5.00
5-yr Govt. Bond Yield (%)	3.51	4.40	4.03	3.70	3.80	4.00	4.25	4.50	4.75	5.15	5.15	5.25	5.25
10-yr Govt. Bond Yield (%)	4.48	5.66	5.00	4.50	4.55	4.70	4.80	5.00	5.10	5.20	5.25	5.45	5.45
10-yr-3-yr Govt. Spread (%)	1.48	2.21	1.78	1.50	1.30	1.20	1.05	1.00	0.85	0.45	0.50	0.45	0.45

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period. Source: Bloomberg, TDBG

SUMMARY FOREIGN EXCHANGE TABLE														
		Spot Price	2011				2012				2013			
		12/09/2011	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Exchange rate to U.S. dollar														
Japanese yen	JPY per USD	77.09	83	81	76	76	78	78	83	85	88	88	90	90
Euro	USD per EUR	1.366	1.416	1.450	1.410	1.400	1.400	1.400	1.450	1.450	1.420	1.420	1.380	1.380
U.K. pound	USD per GBP	1.587	1.603	1.605	1.602	1.556	1.591	1.591	1.667	1.706	1.711	1.711	1.725	1.725
Swiss franc	CHF per USD	0.882	0.919	0.840	0.851	0.857	0.857	0.857	0.841	0.841	0.880	0.880	0.906	0.906
Canadian dollar	CAD per USD	0.999	0.971	0.963	1.010	1.042	1.000	0.971	0.952	0.952	0.962	0.962	0.971	0.971
Australian dollar	USD per AUD	1.034	1.033	1.072	1.050	1.040	1.040	1.030	1.030	1.020	1.000	1.000	0.980	0.960
NZ dollar	USD per NZD	0.821	0.762	0.829	0.840	0.830	0.830	0.820	0.820	0.810	0.810	0.810	0.800	0.790
Exchange rate to Euro														
U.S. dollar	USD per EUR	1.366	1.416	1.450	1.410	1.400	1.400	1.400	1.450	1.450	1.420	1.420	1.380	1.380
Japanese yen	JPY per EUR	105	118	117	107	106	109	109	120	123	125	125	124	124
U.K. pound	GBP per EUR	0.861	0.883	0.903	0.880	0.900	0.880	0.880	0.870	0.850	0.830	0.830	0.800	0.800
Swiss franc	CHF per EUR	1.206	1.301	1.219	1.200	1.200	1.200	1.200	1.220	1.220	1.250	1.250	1.250	1.250
Canadian dollar	CAD per EUR	1.364	1.374	1.397	1.424	1.458	1.400	1.359	1.381	1.381	1.365	1.365	1.340	1.340
Australian dollar	AUD per EUR	1.321	1.371	1.353	1.343	1.346	1.346	1.359	1.408	1.422	1.420	1.420	1.408	1.438
NZ dollar	NZD per EUR	1.665	1.859	1.749	1.679	1.687	1.687	1.707	1.768	1.790	1.753	1.753	1.725	1.747
Exchange rate to Japanese yen														
U.S. dollar	JPY per USD	77.09	83	81	76	76	78	78	83	85	88	88	90	90
Euro	JPY per EUR	105.3	118	117	107	106	109	109	120	123	125	125	124	124
U.K. pound	JPY per GBP	122	133	129	122	118	124	124	138	145	151	151	155	155
Swiss franc	JPY per CHF	87.4	90.5	95.8	89.3	88.7	91.0	91.0	98.6	101.0	100.0	100.0	99.4	99.4
Canadian dollar	JPY per CAD	77.2	85.6	83.6	75.2	73.0	78.0	80.3	87.2	89.3	91.5	91.5	92.7	92.7
Australian dollar	JPY per AUD	79.7	85.9	86.3	79.8	79.0	81.1	80.3	85.5	86.7	88.0	88.0	88.2	86.4
NZ dollar	JPY per NZD	63.3	63.3	66.8	63.8	63.1	64.7	64.0	68.1	68.9	71.3	71.3	72.0	71.1
Exchange rate to Canadian dollar														
U.S. dollar	USD per CAD	1.002	1.030	1.038	0.990	0.960	1.000	1.030	1.050	1.050	1.040	1.040	1.030	1.030
Japanese yen	JPY per CAD	77	86	84	75	73	78	80	87	89	92	92	93	93
Euro	CAD per EUR	1.364	1.374	1.397	1.424	1.458	1.400	1.359	1.381	1.381	1.365	1.365	1.340	1.340
U.K. pound	CAD per GBP	1.58	1.56	1.55	1.62	1.62	1.59	1.54	1.59	1.62	1.65	1.65	1.67	1.67
Swiss franc	CHF per CAD	0.884	0.947	0.872	0.843	0.823	0.857	0.883	0.883	0.883	0.915	0.915	0.933	0.933
Australian dollar	AUD per CAD	0.968	0.997	0.968	0.943	0.923	0.962	1.000	1.019	1.029	1.040	1.040	1.051	1.073
NZ dollar	NZD per CAD	1.221	1.353	1.252	1.179	1.157	1.205	1.256	1.280	1.296	1.284	1.284	1.288	1.304

f: Forecast by TD Bank Group as at September 12, 2011; All forecasts are for end of period

Source: Federal Reserve Bank of New York, Bloomberg, TDBG

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