Q. Reference: Dr. Booth Evidence, Page 36, Lines 21-23

"Overall, RBC's forecast reflects the passing of some unique events and unfortunately a return to normal for the province as one of the weakest sectors of the Canadian economy."

Please provide the referenced RBC forecast.

A. Provided as attachment to NP-CA-037.

Inside...

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FINANCIAL MARKETS MONTHLY

February 11, 2016

Absence of inflation

Uncertain global growth outlook and persistently soft inflation readings are taking a toll on financial markets, with stocks faltering and government bond yields remaining low. For the euro area and the UK, we have altered our central bank outlook, given the absence of inflationary pressures related to the persistent decline in oil prices and the lack of upward pressure emanating from the labour market. While growth indicators remain healthy, the lack of price pressure is likely to result in the European Central Bank (ECB) reducing its policy rate by an additional 10 basis points later this quarter while the Bank of England (BoE) is likely to hold the policy rate steady at 50 basis points until early 2017. The lack of inflation pressures, financial market turmoil, and falling dairy prices has built the case for further easing by the Reserve Bank of New Zealand (RBNZ) as well.

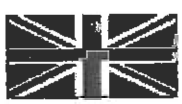
Uncertainty about the outlook for inflation was also evident in the US Fed's recent policy statement that suggested the persistent decline in energy prices and recent slide in market-based measures of inflation expectations raised the bar slightly for the Fed to act quickly to implement another interest rate hike. We now expect the Fed will exercise near-term patience, leaving the fed funds rate unchanged in March. In Canada, the Bank projected that the combination of slack in the economy and lower energy prices will keep downward pressure on inflation in 2016. Both the Fed and Bank of Canada (BoC) expect that as these transitory factors ease, inflation will gravitate toward the medium-term objective of 2%, and thus, we expect the Fed will resume gradually raising rates in the second quarter of 2016 while the Bank of Canada remains on hold.

Central bank near-term bias

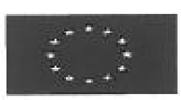
Three-months out, policy rate

↔ The BoC reportedly entered January's meeting with an easing bias, but expected support from fiscal stimulus and potential for a further weakening in the Canadian dollar stayed its hand. We expect rates will be held steady for the remainder of the year.

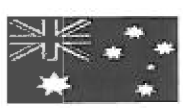
↗ The Fed continues to see the domestic economic backdrop as supporting further, gradual rate hikes, but recent market volatility and tighter financial conditions have increased risks to the outlook. We expect the Fed will hold rates steady in March before raising the fed funds target again in Q2.



↔ With indications of less momentum in the economy, limited wage growth, and greater disinflationary pressure from lower oil prices, we now expect the BoE will stay on the sidelines this year.



↘ The ECB indicated a willingness to provide further stimulus given a lack of inflationary pressure, downside risks from lower energy prices, and recent tightening in financial conditions. We expect a 10bp cut in the deposit rate to -0.40% in March.



↘ Resilience in domestic activity saw the RBA hold the policy rate steady but maintain an easing bias. The RBA is monitoring global developments and said low inflation "may provide scope for easier policy."

↘ With inflation undershooting expectations once again, we now expect further easing from the RBNZ with 50bp of rate cuts in H1/16 beginning at the next meeting in March.

NP-CA-37
Attachment
page 1 of9

Highlights

▲ Inflation is low in many advanced economies, reflecting persistent declines in energy prices and failure of tightening labour markets to generate upward pressure on wages.

▲ Oil prices are expected to rise in 2016; however, the sharp downturn in December 2015 and January 2016 have led to downward revisions to our forecasts.

▲ US growth slowed in Q4/15, although early indicators are set for a pickup in early 2016.

▲ The Fed shied away from raising the funds target again in January and is closely watching financial and international developments.

Global stocks sagged in January 2016, with the MSCI world index dropping by **5.8%**. Government bond yields fell significantly as risk-averse investors put funds into fixed-income securities. In this period, 10-year yields in the euro area and UK dropped by 31 and 39 basis points, respectively, to stand at 0.33% and 1.56%. In the US, the 10-year yield also fell substantially (-33basis points) to 1.94%; while in Canada, the rate was down 17 basis points to 1.22%. The slide in global stocks and long-term government bond yields continued in February.

Oil price forecasts lowered

Part of the low global inflation story reflects the sharp drop in oil prices that built momentum late last year and continued into January 2016. A myriad of factors drove the recent leg downward in oil prices, ranging from the anticipation of Iranian supply coming to the market to growth concerns about China and the implication for energy demand. Following the 8.4% drop in the price of West Texas Intermediate (WTI) in December 2015 and 17.9% plunge in the first half of January 2016, we marked to market our price forecasts. This resulted in a significant downgrade to our 2016 WTI price forecast to $40.00/barrel from $52.00/barrel previously. Maintaining the lower trajectory for prices in 2017 contributed to a downgrade in the price forecast to $57.00/barrel from $62.00/barrel. Despite these downgrades, our underlying view remains intact, with conditions in the energy market expected to become more closely aligned as global demand continues to grow at slightly faster than a 1% pace in 2016 and 2017 while supply by non-Organization of the Petroleum Exporting Countries (OPEC) producers finally declines.

US economy ended 2015 just as it started the year

The US economy was book-ended by weak quarterly growth readings in 2015 with the advance estimate of fourth-quarter 2015 gross domestic product (GDP) showing an 0.7% annualized increase almost matching the 0.6% rise recorded in the first quarter of 2015. In the intervening period, the economy showed healthier gains of 3.9% in the second quarter and 2.0% in the third. Overall, the US economy grew by 2.4% in 2015.

Slower growth in the fourth quarter partially reflected moderate gains in key areas of domestic spending; however, there are reasons to be optimistic regarding a rebound in early 2016. While consumer spending growth slowed in the fourth quarter, persistent robust job gains alongside low energy prices are likely to prompt a return to the solid trend evident in most of 2016. Business investment dipped in the fourth quarter, reflecting both a retracement in strong equipment investment in the prior quarter and a further pullback in non-residential construction activity. The latter was partially due to weaker energy-sector investment, and while low oil prices will prompt further declines, the energy component's shrinking share of investment points to less of a drag on overall spending going forward. Thus, our forecast assumes a rebound in consumer spending, continued strength in residential investment, and recovery in business investment will boost domestic demand. Although the drag on growth from net trade is expected to persist, given the weak external environment and the strong US dollar, we forecast first-quarter 2016 real GDP growth of **2.5%**.

Fed watching and waiting

In its January statement, US policymakers acknowledged the weakening in economic activity in the fourth quarter; however, there was no suggestion that this slowing was expected to persist in 2016. The Fed highlighted a reduction in underutilized labour resources due to strong job gains and said although inflation is expected "to remain low in the near term," it is still likely to rise in the medium term as the "transitory effects" of the decline in energy and import prices dissipate and labour market conditions tighten further. In essence, the statement maintained the optimism that accompanied the Fed's decision to raise the policy rate in December that both the economy and labour market will continue to improve.

RBC

The timing of the next hike will be contingent not only on the Fed's assessment of current conditions but also take into account the effect that international economic and financial market developments are having on its outlook. While we believe the economic fundamentals support the case for the Fed to raise the funds target in March, we expect the Fed will exercise caution given recent market volatility and tightening in financial conditions. As evidence emerges that the economic and inflation outlook is not being significantly affected by these developments, we expect the Fed will resume its tightening cycle with gradual rate hikes resuming in the second quarter. The fed funds rate is expected to end 2016 at 1.25%.

Canada's economy snapped back in November

After two months of disappointing results, Canada's economy grew by 0.3% in November 2015 as goods-producing industries increased output by 0.4% and service-producers posted a 0.2% gain. Gains were recorded in manufacturing and energy production accompanied by strong increases in wholesale and retail trade and transportation. November's rebound was encouraging, although it was insufficient to offset the full 0.5% decline in September that was followed by flat activity in October, meaning that fourth-quarter GDP will likely be reported as unchanged relative to the third quarter.

The solid gain in November points to underlying strengthening activity later in the quarter. This momentum will help temper the downdraft from the renewed downturn in oil prices going into 2016. Given our updated energy price profile, we have incorporated a larger drag from the energy sector into our forecast for 2017 growth; however, this pullback is expected to be largely offset by a strengthening in export activity backed by solid US growth and the weak Canadian dollar. On balance, we see the economy likely returning to a period of above-potential growth early this year, helped along by solid gains in consumer spending and a modest dose of fiscal stimulus.

Bank of Canada decides to let it ride

It was a close call on whether or not the Bank of Canada would act at its rate-setting meeting on January 20, 2016, with forecasters and market makers divided on the outcome. In the event, policymakers decided to maintain the overnight rate at 0.5%. The main rationale for the patient stance appears to be the Bank's view that the economy is undergoing a major transition in the drivers of economic growth and that the anticipated pickup in activity in the non-resource sector is occurring. The Bank pointed to the economy undergoing "complex adjustments" as labour and capital are reallocated toward the non-resource sector, where the Bank states that activity "has been relatively solid and expected to be the main source of growth going forward." This adjustment will likely be prolonged, although the Bank expects growth to accelerate in 2016 and 2017, as the contraction in the resource sector "wanes" and the non-resource sectors of the economy firm.

In part, the decision to hold the policy rate steady reflected policymakers' confidence that although it will be a slow process, there are signs that the transition toward the non-resource sectors acting as the engine of growth is underway. Furthermore, in his press conference, the Governor suggested that if a consequence of further rate declines was additional downward pressure on the currency that over time would exert upward pressure on inflation as import prices increased, then this would jeopardize inflation expectations remaining anchored at the Bank's 2% target.

Our forecast assumes that the economy will experience a pickup in growth in 2016 as exporters see increased demand and consumers provide ongoing support. And, as long as indications persist that the economy's transition is proceeding, we see little need for the Bank to increase the amount of policy accommodation via a cut to the overnight rate. Furthermore, we expect a dose of fiscal stimulus in the upcoming Federal Budget to provide another buffer for the economy as it continues along the transition process. Our forecast for a steady policy rate is contingent on our expectation that oil prices will avoid an even deeper and more prolonged decline.

Highlights

▲ Canada's economy grew by 0.3% in November 2015, which was a marked improvement compared to the previous two months.

▲ The Bank of Canada held the policy rate steady at 0.5% and highlighted that the transition toward greater activity in the non-resource sector was underway.

▲ We expect Canada's economy to return to positive growth in Q1/16 as export growth accelerates despite further declines in investment by energy companies.

Highlights

▲ Another 10bp cut by the ECB would bring the deposit rate down to the -0.40%.

▲ UK GDP growth in 2016 is forecasted to approximately match 2015's 2.2% pace.

▲ Further easing by the RBA is still likely to materialize.

▲ New Zealand's 0.1% headline inflation rate in Q4/15 was the weakest since Q3/99.

ECB set to boost stimulus in March

The euro area ended 2015 on a solid footing with GDP growth forecasted at 0.3% in the fourth quarter, just slightly slower than the average pace of increase in the last year. While relatively modest, the consistency of growth was encouraging, particularly considering uncertainty surrounding the domestic and external outlook in 2015. Recent survey indicators pointed to positive momentum continuing in early 2016. While the composite Purchasing Managers' Index (PMI) for the euro area moderated to an 11-month low in January, the reading was only slightly below the 2015 average and continued to signal a pace of growth around 0.4% in the first quarter of 2016. PMI surveys, however, continue to indicate a benign inflationary environment, as the euro area recovery has failed to generate much upward pressure on prices. The recent slide in crude oil prices added downside risk to forecasts (both ours and the ECB's) for inflation to pick up modestly this year. At its latest meeting, the ECB signalled a willingness to respond to further disappointment on inflation and recent market turmoil that has tightened financial conditions. In March, we expect the ECB will cut the deposit rate by another 10 to 40 basis point while leaving the asset purchase program unchanged after December's six-month extension.

BoE likely to hold steady this year

The advance estimate of fourth-quarter UK GDP showed a 0.5% increase, thereby matching market expectations and up from the 0.4% gain in the third quarter. Growth was again largely driven by the service sector while industrial production and construction activity both edged lower. The increase left 2015 GDP up 2.2% for the year, down from the 2.9% gain in 2014, and closer to potential growth in the economy. Recent survey data indicate a slight loss of momentum heading into 2016, thereby supporting our expectation that 2016 growth will struggle to exceed 2015's pace. Despite further labour market tightening, wage growth slipped to just 2% year over year in November. Further accounting for a renewed decline in oil prices, it is difficult to see headline inflation moving much higher than 1% in 2016. A benign inflationary environment, weaker growth impulse, and potential for "Brexit" uncertainty to emerge this year are expected to keep the BoE on the sidelines longer than earlier anticipated. As such, we have delayed our forecast for the first Bank Rate hike until February 2017. The BoE's latest *Inflation Report* seemed to align with this updated forecast. Alongside a now unanimous decision to leave rates unchanged (one Monetary Policy Committee member previously dissented, voting for a hike at the last six meetings), the Bank revised downward projections for GDP, inflation, and wage growth in 2016.

RBA maintains an easing bias

As expected, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.0% and retained an easing bias as it acknowledged recent global market developments and pondered the potential effect on domestic activity. Some resilience in the domestic economy kept the RBA on the sidelines while keeping a watchful eye on global developments. We remain comfortable with further cuts in our RBA profile, although the risk is that further easing occurs later in 2016 rather than our base case of in the first half of 2016.

Low inflation points to further RBNZ easing

We previously expected December's rate cut would be the last of the RBNZ's easing cycle but that further cuts could not be ruled out if inflation disappointed relative to the central bank's already lowered forecast. That has indeed been the case, with the fourth-quarter consumer price index (CPI0 slipping to just 0.1% year over year and short of the RBNZ's 0.4% projection for the quarter that it made in December) and the weakest reading since 1999. Inflation has now fallen below the 1–3% target band for five consecutive quarters and, by our forecast, is set to remain below 1% until the fourth quarter of 2016. There is little evidence of firming domestic inflationary pressure, and with wages likely to be held down by weaker terms of trade and net migration inflows, we expect that inflation will rise to just 1.6% by the end of 2017. Persistently low inflation, recent financial market turmoil, and falling dairy prices have built the case for further easing, and we now forecast the cash rate will be lowered by 50 basis points to 2.0% by mid-year. The RBNZ's latest policy statement acknowledged as much noting that "some further policy easing may be required over the coming year." Our forecast assumes the first rate cut will come at the next policy meeting in March.

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	0.75	1.00	1.25	1.75
Three-month	0.55	0.58	0.43	0.51	0.40	0.40	0.50	0.60	0.85	1.10	1.35	1.80
Two-year	0.50	0.48	0.52	0.48	0.40	0.50	0.65	1.00	1.30	1.60	1.95	2.45
Five-year	0.77	0.82	0.80	0.73	0.60	0.80	1.05	1.35	1.70	2.00	2.35	2.70
10-year	1.36	1.69	1.43	1.40	1.20	1.50	1.65	2.00	2.35	2.60	2.80	3.05
30-year	1.98	2.31	2.20	2.15	1.85	2.25	2.40	2.70	2.95	3.05	3.20	3.35
United States												
Fed funds**	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.25	2.75
Three-month	0.04	0.03	0.00	0.17	0.20	0.40	0.45	0.70	1.00	1.30	1.90	2.45
Two-year	0.56	0.64	0.64	1.05	0.85	1.10	1.25	1.60	1.90	2.20	2.60	2.95
Five-year	1.37	1.64	1.37	1.76	1.30	1.60	1.75	2.15	2.40	2.65	2.95	3.20
10-year	1.93	2.35	2.04	2.27	1.85	2.10	2.15	2.55	2.80	3.00	3.25	3.40
30-year	2.54	3.12	2.86	3.02	2.65	2.90	2.95	3.30	3.45	3.55	3.75	3.85
United Kingdom												
Bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Two-year	0.43	0.55	0.56	0.66	0.40	0.55	0.60	0.75	0.85	0.95	1.10	1.10
10-year	1.58	2.01	1.76	1.96	1.50	1.70	1.75	2.10	2.40	2.50	2.75	3.00
Eurozone												
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	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
10-year	0.18	0.77	0.59	0.63	0.30	0.35	0.40	0.55	0.75	0.95	1.10	1.25
Australia												
Cash target rate	2.25	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.75	2.00
Two-year	1.72	2.01	1.81	2.02	1.70	1.60	1.75	2.00	2.10	2.30	2.70	3.00
10-year	2.32	3.01	2.61	2.88	2.55	2.60	2.75	3.15	3.40	3.60	3.95	4.20
New Zealand												
Cash target rate	3.50	3.25	2.75	2.50	2.25	2.00	2.00	2.00	2.00	2.00	2.25	2.50
Two-year swap	3.48	3.09	2.69	2.83	2.50	2.20	2.20	2.30	2.50	2.70	3.00	3.20
10-year swap	3.71	3.89	3.48	3.73	3.20	3.20	3.40	3.80	4.10	4.30	4.60	4.80
Yield curve*												
Canada	86	121	91	92	80	100	100	100	105	100	85	60
United States	137	171	140	122	100	100	90	95	90	80	65	45
United Kingdom	115	146	120	130	110	115	115	135	155	155	165	190
Eurozone	43	100	85	97	80	85	90	105	125	145	160	175
Australia	60	100	80	86	85	100	100	115	130	130	125	120
New Zealand	23	80	79	90	70	100	120	150	160	160	160	160

* 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	0.50	1.00	March 5, 2009
Eurozone	Deposit rate	-0.30	-0.20	December 3, 2015
Australia	Cash rate	2.00	2.25	May 5, 2015
New Zealand	Cash rate	2.50	2.75	December 10, 2015

Source: Bloomberg, Reuters, RBC Economics Research

Growth outlook

% change, quarter-over-quarter in real GDP

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015F	2016F	2017F
Canada*	-0.7	-0.3	2.3	0.0	2.2	2.4	2.6	2.5	2.7	2.8	2.6	2.5	2.5	1.2	1.8	2.6
United States*	0.6	3.9	2.0	0.7**	2.5	2.9	2.8	2.7	2.4	2.7	2.6	2.8	2.4	2.4	2.3	2.7
United Kingdom	0.4	0.5	0.4	0.5**	0.6	0.5	0.6	0.5	0.6	0.5	0.6	0.6	2.9	2.2	2.1	2.2
Euro Area	0.5	0.4	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.9	1.5	1.7	1.8
Australia	0.9	0.3	0.9	0.5	0.5	0.7	0.6	0.7	0.8	0.7	0.7	0.7	2.6	2.3	2.4	2.9
New Zealand	0.2	0.3	0.9	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	3.7	2.1	1.8	2.1

*annualized, **preliminary actual

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	1.6	1.6	1.7	2.0	2.5	2.3	2.2	2.1	1.9	1.1	1.7	2.3
United States	-0.1	0.0	0.1	0.5	1.1	0.9	1.2	1.9	2.6	2.7	2.5	2.3	1.6	0.1	1.3	2.5
United Kingdom	0.1	0.0	0.0	0.1	0.6	0.7	0.7	0.8	1.3	1.4	1.6	1.8	1.5	0.0	0.7	1.6
Eurozone	-0.3	0.2	0.1	0.2	0.6	0.4	0.6	0.9	1.2	1.3	1.4	1.5	0.4	0.0	0.6	1.3
Australia	1.3	1.5	1.5	1.7	2.2	2.3	2.4	2.6	2.6	2.6	2.7	2.8	2.5	1.5	2.4	2.7
New Zealand	0.3	0.4	0.4	0.1	0.6	0.5	0.6	1.4	1.5	1.5	1.5	1.6	1.2	0.3	0.8	1.5

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]	Dec	0.1	1.9	1.4	2.1
United States	Core PCE[1,2]	Dec	0.0	1.4	1.2	1.5
United Kingdom	All-items CPI	Dec	0.0	0.2	0.5	0.9
Eurozone	All-items CPI[1]	Jan	-0.1	0.4	-0.8	-0.1
Australia	Trimmed mean CPI[1]	Q4	0.6	2.1	N/A	N/A
New Zealand	All-items CPI	Q4	-0.5	0.1	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	1.45	1.40	1.36	1.33	1.31	1.29	1.27	1.25
Euro	1.07	1.11	1.12	1.09	1.03	1.00	1.00	1.02	1.03	1.04	1.05	1.06
U.K. pound sterling	1.48	1.57	1.51	1.47	1.41	1.41	1.43	1.48	1.51	1.55	1.59	1.63
New Zealand dollar	0.75	0.68	0.64	0.68	0.62	0.60	0.62	0.63	0.64	0.64	0.65	0.66
Japanese yen	120.1	122.5	119.9	120.1	124.0	128.0	132.0	128.0	126.0	124.0	122.0	120.0
Australian dollar	0.76	0.77	0.70	0.73	0.67	0.65	0.65	0.65	0.66	0.66	0.67	0.68

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	1.49	1.40	1.36	1.36	1.35	1.34	1.33	1.33
GBP/CAD	1.88	1.96	2.01	2.04	2.05	1.97	1.94	1.97	1.98	2.00	2.02	2.04
NZD/CAD	0.95	0.85	0.85	0.95	0.90	0.84	0.84	0.84	0.84	0.83	0.83	0.83
CAD/JPY	94.7	98.0	90.0	86.8	85.5	91.4	97.1	96.2	96.2	96.1	96.1	96.0
AUD/CAD	0.97	0.96	0.93	1.01	0.97	0.91	0.88	0.86	0.86	0.85	0.85	0.85

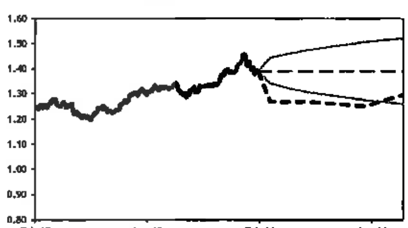
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

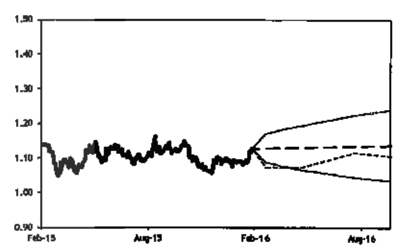
RBC Economics outlook compared to the market

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.

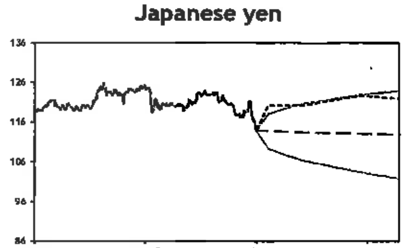
Canadian dollar



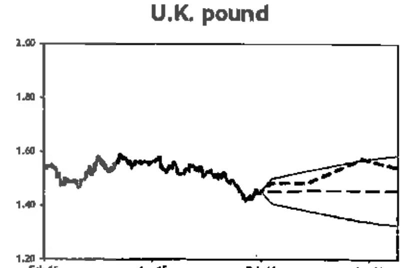
Euro



Japanese yen



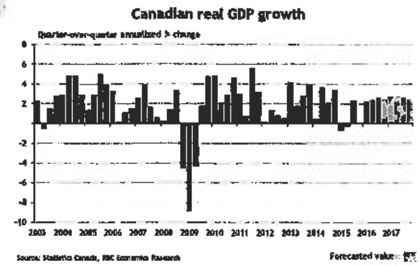
U.K. pound



Bank of Canada

Canadian GDP rebounded by 0.3% in November 2015 following a flat reading in October and a 0.5% decline in September. The earlier weakness was consistent with RBC and the BoC's forecasts for flat Q4/15 GDP.

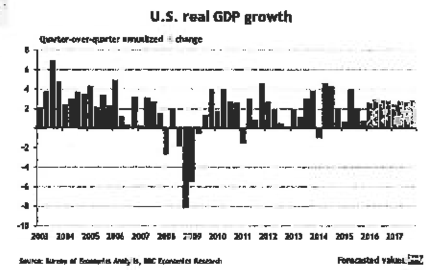
The Bank maintained the policy rate at 0.5% in January, thereby pointing to evidence that the transition toward non-resource sectors is underway.

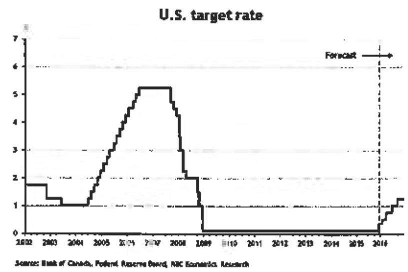


Federal Reserve

US GDP growth slowed to an annualized 0.7% pace in Q4/15, as a drag from net trade and slower inventory growth accompanied a modest increase in domestic demand.

The Fed's January statement acknowledged weaker activity and higher market volatility but emphasized further improvement in the labour market. Policymakers are likely to be cautious with the next hike expected in Q2/16.

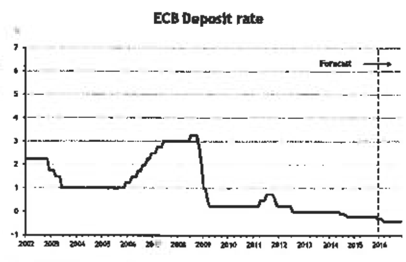




European Central Bank

Our forecast assumes a moderate 0.3% increase in Q4/15 GDP, and early indicators point to momentum being sustained in 2016.

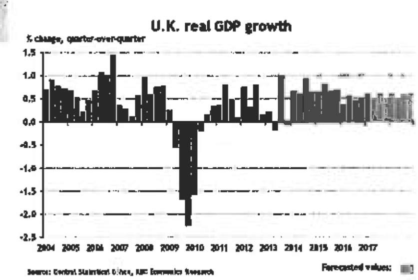
Renewed declines in energy prices add downside risk to already low inflation forecasts, and recent market volatility has tightened financial conditions. We expect the ECB will respond to these developments by cutting the deposit rate by 10bp in March.



Bank of England

UK GDP grew by a solid 0.5% in Q4 according to the advance estimate, but recent survey indicators point to a slight loss of momentum heading into 2016.

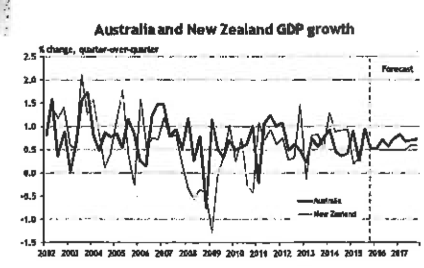
Reduced labour market slack has failed to put sustained upward pressure on wages while lower energy prices add to downside risks on inflation. With limited price pressure in 2016, we expect the BoE will hold rates steady for 2016.

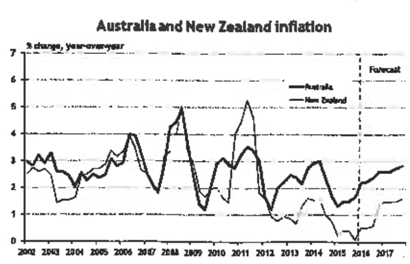


Australia and New Zealand

The RBA left the policy rate unchanged but retained an easing bias and is watching global developments for the potential effects on external and domestic demand.

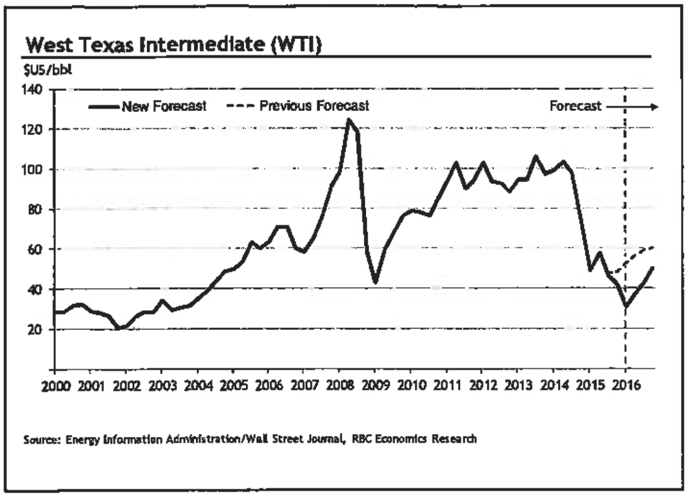
Following a disappointing read in Q4/15, inflation is expected to remain below the RBNZ's 1–3% target band for much of 2016. We now expect the RBNZ's easing cycle will continue with 25bp rate cuts in both Q1 and Q2/16.



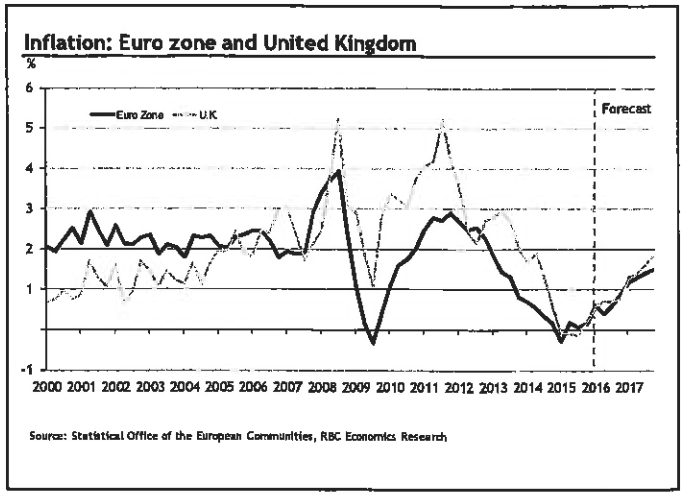


CA-NP-37
Attachment
page 8 of 9

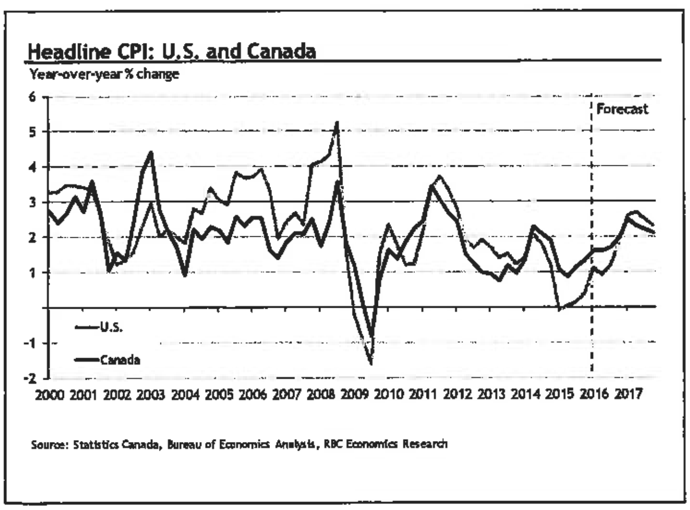
The marked decline in oil prices in December 2015 and January 2016 resulted in downgrading our 2016 oil price forecast.



Headline inflation rates are low in the major economies that we monitor…



…and are likely to take longer to get back to central banks' 2% objective.



This suggests policy rates will remain lower for longer.