Rates Scenario for February 10, 2020

A Publication of BMO Capital Markets Economic Research • Douglas Porter, CFA, Chief Economist, BMO Financial Group

ECONOMIC RESEARCH
+1 (416) 359-6372
economics.bmo.com

Michael Gregory, CFA, Deputy Chief Economist
+1 (416) 359-4747
michael.gregory@bmo.com

Jennifer Lee, Senior Economist
+1 (416) 359-4092
jennifer.lee@bmo.com

Forecast Summary

	Actual	Forecasts									
	2020	2020			2020			2021			
	Jan	Feb	Mar	Apr	Q2	Q3	Q4	Q1	Q2	Q3	Q4
BoC overnight	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10-yr Canadas	1.49	1.35	1.40	1.40	1.45	1.60	1.75	1.85	1.90	2.00	2.05
Fed funds	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63
10-yr Treasuries	1.76	1.60	1.65	1.70	1.70	1.85	1.95	2.05	2.10	2.15	2.20
C$ per US$	1.31	1.33	1.33	1.33	1.33	1.32	1.32	1.31	1.30	1.30	1.29
US$/€	1.11	1.10	1.10	1.10	1.09	1.09	1.10	1.11	1.12	1.13	1.14
US$/£	1.31	1.31	1.31	1.32	1.32	1.31	1.30	1.30	1.31	1.31	1.32
MXN/US$	18.80	18.75	18.65	18.60	18.50	18.30	18.05	17.95	17.90	17.85	17.75
¥/US$	109	109	108	108	107	109	111	113	113	114	115

(policy rates are end of period; averages otherwise)
Sources: BMO Economics, Haver Analytics

Since the previous issue of Rates Scenario (on December 17):

- We continue to look for **no change in Federal Reserve or Bank of Canada policy rates** this year, although the **risk of rate cuts has risen** on both sides of the border.
- On January 29, the **FOMC** kept the fed funds target range unchanged (1.50%-to-1.75%) for the second consecutive meeting. There was a subtle, but significant, change in the press release. In discussing why the current stance of monetary policy was appropriate, the statement said that this would lead to inflation *"returning to",* as opposed to remaining *"near"*, the symmetric 2% target. When asked about this in the presser, Chair Powell said it was to avoid any misinterpretation that the FOMC was somehow comfortable with a slight undershoot of 2%. With the results of the review of the monetary policy framework scheduled for midyear, this also potentially signals that the Fed is becoming increasingly impatient with the chronic (and asymmetric) failure to hit the target. Headline and core PCE inflation were both up 1.6% y/y in December.
- Powell also repeated (for the third consecutive meeting) that it would take a *"material reassessment of our outlook"* to trigger another rate cut; an assessment, in turn, that would likely be brought about by on-the-ground underperformance or a meaningful deterioration in the risks surrounding the outlook. While our attention has tended to focus on economic growth underperforming, it now seems that **inflation misses are more important than before**. Meanwhile, on the risk front, the semi-annual Monetary Policy Report to Congress (released February 7) said: *"Downside risks to the economic outlook seem to have receded somewhat in the latter part of 2019. Labor market conditions and economic growth in the United States have been resilient to the global headwinds in 2019, and conflicts over trade policy diminished somewhat toward the end of the year. Economic growth abroad also shows signs of stabilizing, though the coronavirus outbreak presents a more recent risk."*
- The impact of the coronavirus plus Boeing's suspension of 737 MAX production should temporarily push real GDP growth well below potential in 2020Q1. As the economy subsequently rebounds from both factors (the risks being

that the former is larger and the latter is longer), and China starts buying more U.S. goods and services as part of the trade deal (the risk being that this is delayed), GDP growth should run the rest of the year at or slightly above potential. This, along with an expected mild up-drift in core PCE inflation, should keep the Fed on the sidelines. But it's obvious where the net risk lies.

- On January 22, the **Bank of Canada** kept the policy rate unchanged at 1.75%, where it has been since October 2018. The tone of the announcement and MPR was more dovish than expected. Tellingly, the Bank dropped the word *"appropriate"* when describing the current policy stance. The key passage was that the *"Governing Council will be watching closely to see if the recent slowdown in growth is more persistent than forecast. In assessing incoming data, the Bank will be paying particular attention to developments in consumer spending, the housing market, and business investment."* The Bank is waiting to see if the slowdown persists. It's assumed to reflect temporary factors such as "*strikes, poor weather, and inventory adjustments [a pipeline shutdown]"* along with the potential that "*global economic conditions have been affecting Canada's economy to a greater extent than was predicted."*
- The Bank kept an eye on retail sales softness and broader consumer caution, and the other eye on the on-target inflation trends and the rebounding housing market. The latter looks like it might have been the ultimate deciding factor. In a subsequent speech, and in reference to last October's similar contemplation of a rate cut, Deputy Governor Beaudry said: *"Given the state of the financial vulnerabilities in Canada, we judged the risk of reigniting the acceleration of house price expectations and the buildup of debt was too high—and that could make attaining our inflation target harder in the long run."*
- Since the policy announcement, January releases showed continued advances in housing (at least in some major centres), decent job growth that was all full-time and sporting some wage acceleration, and even a rebound in consumer confidence. This likely lessened any building urgency to ease, despite concerns over the impact of the coronavirus. Nevertheless, until it is clear that growth has fully shaken off Q4's paltry performance (and we think it will, with growth at 2.0% through H1), the Bank's going to keep its finger close to the easing trigger (with housing acting as a safety lock).
- With central bank rate cuts priced in by the autumn on both sides on the border, and our base call for stand-pat policies and resumption of slight-above-potential growth, we look for bond yields to rise modestly this year. We expect the **Canadian dollar** to appreciate slightly over the next 12 months, but remain range-bound.
- **Elsewhere**, there is still plenty of uncertainty in the air, despite the settling of Phase One of the U.S./China trade agreement. One would have thought that with the first phase now put to bed, we could begin to focus on normal issues.
- Wrong. Since the start of 2020, the word du jour has been "*coronavirus*", or 2019-nCoV, and that has become the number one problem facing the global economy. Although we continue to expect central banks to remain on the sidelines for the year, policymakers have a toe on the 'easing' side, as they gauge the damage from this virus on economic activity.
- The **ECB** has begun its year-long review of its monetary policy strategy, leaving "no stone unturned". So, unless something meaningful or material occurs, we don't look for any moves by the ECB, at least until after the review has been completed. Besides, most policymakers have been emphasizing "*patience*", and urged markets to allow their latest round of QE to work its way through the economy. There will be temptation, however, with the Big Three economies flirting with recession. But certainly keep an eye on the U.S./EU trade talks. So far, it is encouraging that the U.S. is putting aside the possibility of a 25% tariff on European auto imports while talks are being held.

- The **BoE** is keeping calm as the U.K. begins life outside of the European Union. Although two policymakers continue to vote for a rate cut, the rest are adopting a wait-and-see approach. Trade talks are scheduled to begin in March and one can expect less-than-amicable discussions. Already, PM Johnson has threatened to walk away if his demand for either a Canada-style trade agreement or one that is modelled after Australia's isn't met. Meantime, Andrew Bailey, a former regulator, will be taking the reins at the BoE in mid-March, so it is worth waiting to hear his views on the current policy stance. We anticipate no change in policy this year.
- The **BoJ** is unlikely to stray from its loose monetary policy stance. Like its counterpart in Europe, the ball is being nudged toward the government for additional help, if it is required. Two of PM Abe's three arrows have been utilized (fiscal stimulus, monetary policy) and there is pressure to bring in the third arrow....which includes economic reforms and new regulations.

Foreign Exchange Forecasts

	Actual	Forecasts									
	2020	2020			2020			2021			
	Jan	Feb	Mar	Apr	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Canadian Dollar											
C$ per US$	1.31	1.33	1.33	1.33	1.33	1.32	1.32	1.31	1.30	1.30	1.29
US$ per C$	0.764	0.752	0.753	0.754	0.755	0.757	0.760	0.763	0.767	0.770	0.774
Trade-weighted	117.9	116.5	116.7	116.7	116.8	117.1	117.4	117.6	117.9	118.1	118.4
U.S. Dollar											
Trade-weighted[1]	115.3	116.2	116.2	116.1	116.0	115.8	115.6	115.2	114.8	114.4	114.0
European Currencies											
Euro[2]	1.11	1.10	1.10	1.10	1.09	1.09	1.10	1.11	1.12	1.13	1.14
Danish Krone	6.73	6.85	6.85	6.85	6.85	6.80	6.80	6.75	6.65	6.60	6.55
Norwegian Krone	8.96	9.25	9.25	9.20	9.20	9.15	9.10	9.00	8.85	8.75	8.60
Swedish Krone	9.51	9.65	9.65	9.60	9.60	9.55	9.45	9.40	9.25	9.15	9.05
Swiss Franc	0.970	0.971	0.972	0.973	0.974	0.976	0.979	0.983	0.988	0.993	0.998
U.K. Pound[2]	1.31	1.31	1.31	1.32	1.32	1.31	1.30	1.30	1.31	1.31	1.32
Asian Currencies											
Chinese Yuan	6.92	6.96	7.00	6.99	6.99	6.97	6.96	6.93	6.91	6.88	6.86
Japanese Yen	109	109	108	108	107	109	111	113	113	114	115
Korean Won	1,167	1,190	1,190	1,190	1,185	1,185	1,180	1,180	1,175	1,170	1,165
Indian Rupee	71.3	71.3	71.4	71.5	71.5	71.7	71.9	71.4	70.5	69.7	68.8
Singapore Dollar	1.35	1.38	1.38	1.37	1.37	1.36	1.35	1.35	1.35	1.34	1.34
Taiwan Dollar	30.0	30.5	30.5	30.4	30.4	30.2	30.1	30.3	30.6	31.0	31.4
Other Currencies											
Australian Dollar[2]	0.685	0.670	0.673	0.676	0.679	0.688	0.697	0.705	0.713	0.720	0.728
New Zealand Dollar[2]	0.660	0.650	0.652	0.654	0.656	0.662	0.668	0.672	0.674	0.677	0.679
Mexican Peso	18.80	18.75	18.65	18.60	18.50	18.30	18.05	17.95	17.90	17.85	17.75
Brazilian Real	4.15	4.30	4.30	4.30	4.25	4.25	4.20	4.20	4.20	4.15	4.15
Russian Ruble	61.9	64.0	64.0	63.9	63.9	63.8	63.7	63.7	63.8	63.9	64.0
South African Rand	14.4	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Cross Rates											
Versus Canadian Dollar											
Euro (C$/€)	1.45	1.46	1.46	1.45	1.45	1.44	1.44	1.45	1.46	1.46	1.47
U.K. Pound (C$/£)	1.71	1.74	1.74	1.74	1.75	1.73	1.71	1.71	1.71	1.70	1.70
Japanese Yen (¥/C$)	84	82	82	81	81	82	84	86	87	88	89
Australian Dollar (C$/A$)	0.90	0.89	0.89	0.90	0.90	0.91	0.92	0.92	0.93	0.93	0.94
Versus Euro											
U.K. Pound (£/€)	0.85	0.84	0.84	0.83	0.83	0.83	0.84	0.85	0.85	0.86	0.86
Japanese Yen (¥/€)	121	120	119	118	117	119	122	125	126	128	130

Local currency per U.S. Dollar (averages); [1] Federal Reserve Broad Index; [2] (US$ per local currency)

Sources: BMO Economics, Haver Analytics

Interest Rate Forecasts

	Actual	Forecasts									
	2020	2020			2020			2021			
	Jan	Feb	Mar	Apr	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Cdn. Yield Curve											
Overnight	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3 month	1.64	1.65	1.65	1.65	1.65	1.70	1.70	1.70	1.70	1.70	1.70
6 month	1.67	1.65	1.65	1.65	1.70	1.70	1.75	1.80	1.80	1.80	1.80
1 year	1.68	1.65	1.65	1.65	1.65	1.70	1.75	1.80	1.80	1.80	1.80
2 year	1.58	1.45	1.50	1.55	1.55	1.65	1.75	1.80	1.80	1.80	1.85
3 year	1.57	1.45	1.45	1.50	1.55	1.65	1.75	1.80	1.80	1.85	1.85
5 year	1.50	1.35	1.40	1.45	1.45	1.60	1.75	1.80	1.85	1.90	1.95
7 year	1.50	1.35	1.40	1.45	1.45	1.60	1.75	1.80	1.90	1.95	2.00
10 year	1.49	1.35	1.40	1.40	1.45	1.60	1.75	1.85	1.90	2.00	2.05
30 year	1.61	1.45	1.50	1.55	1.60	1.75	1.90	1.95	2.05	2.10	2.15
1m BA	2.03	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95
3m BA	2.04	2.00	2.00	2.00	2.00	2.00	2.05	2.05	2.05	2.05	2.05
6m BA	2.05	2.00	2.00	2.05	2.05	2.10	2.15	2.15	2.20	2.20	2.20
12m BA	2.10	2.05	2.05	2.10	2.10	2.15	2.20	2.20	2.20	2.25	2.25
Prime Rate	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95
U.S. Yield Curve											
Fed funds	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63	1.63
3 month	1.55	1.55	1.55	1.60	1.60	1.65	1.65	1.70	1.70	1.70	1.70
6 month	1.56	1.55	1.60	1.60	1.60	1.65	1.70	1.75	1.75	1.75	1.75
1 year	1.53	1.50	1.50	1.55	1.55	1.65	1.70	1.75	1.75	1.75	1.75
2 year	1.52	1.40	1.45	1.50	1.50	1.60	1.70	1.75	1.75	1.80	1.80
3 year	1.52	1.40	1.45	1.50	1.50	1.65	1.75	1.80	1.85	1.85	1.90
5 year	1.56	1.40	1.45	1.50	1.55	1.70	1.85	1.90	1.95	1.95	2.00
7 year	1.67	1.50	1.55	1.60	1.65	1.75	1.90	1.95	2.00	2.05	2.10
10 year	1.76	1.60	1.65	1.70	1.70	1.85	1.95	2.05	2.10	2.15	2.20
30 year	2.22	2.05	2.10	2.15	2.20	2.30	2.40	2.50	2.50	2.55	2.60
1m LIBOR	1.67	1.65	1.65	1.65	1.65	1.65	1.65	1.70	1.70	1.75	1.75
3m LIBOR	1.82	1.75	1.75	1.75	1.75	1.80	1.85	1.85	1.90	1.90	1.95
6m LIBOR	1.84	1.75	1.75	1.75	1.80	1.85	1.90	1.90	1.95	2.00	2.00
12m LIBOR	1.92	1.85	1.85	1.90	1.90	2.00	2.05	2.10	2.15	2.20	2.20
Prime Rate	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Other G7 Yields											
ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10yr Bund	-0.28	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20	-0.20	-0.15	-0.15	-0.10
BoE Repo	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
10yr Gilt	0.67	0.70	0.70	0.70	0.70	0.75	0.80	0.80	0.85	0.85	0.90
BoJ O/N	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04
10yr JGB	-0.01	-0.02	-0.02	-0.02	-0.03	-0.04	-0.05	-0.04	-0.03	-0.02	0.00

Percent (policy and prime rates are end of period; averages otherwise)

Sources: BMO Economics, Haver Analytics

General Disclosures

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K., Bank of Montreal Europe Plc in Ireland and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited, Bank of Montreal Europe Plc and BMO Capital Markets Corp are affiliates. BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such Information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Economic Publications

Our publications are disseminated via email and may also be available via our web site https://economics.bmo.com. Please contact your BMO Financial Group Representative for more information.

Additional Matters

This report is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Its contents have not been reviewed by any regulatory authority. BMO Capital Markets does not represent that this report may be lawfully distributed or that any financial products may be lawfully offered or dealt with, in compliance with regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder.

To Australian residents: BMO Capital Markets Limited is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and is regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. This document is only intended for wholesale clients (as defined in the Corporations Act 2001) and Eligible Counterparties or Professional Clients (as defined in Annex II to MiFID II).

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

To U.K./E.U. Residents: In the UK, Bank of Montreal London Branch is authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority ("FCA") and BMO Capital Markets Limited is authorised and regulated by the FCA. The contents hereof are intended solely for clients which satisfy the criteria for classification as either a "professional client" or an "eligible counterparty", each as defined in Directive 2014/65/EU ("MiFID II"). Any U.K. person wishing to effect transactions in any security discussed herein should do so through Bank of Montreal, London Branch or BMO Capital Markets Limited; any person in the E.U. wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Limited. In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.In an E.U. Member State this document is issued and distributed by Bank of Montreal Europe plc which is authorised and regulated in Ireland and operates in the E.U. on a passported basis. This document is only intended for Eligible Counterparties or Professional Clients, as defined in Annex II to "Markets in Financial Instruments Directive" 2014/65/EU ("MiFID II").

To Hong Kong Residents: This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This material has not been reviewed or approved by any regulatory authority in Hong Kong. Accordingly the material must not be issued, circulated or distributed in Hong Kong other than (1) except for "structured products" as defined in the Securities and Futures Ordinance, in circumstances which do not constitute it as a "Prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of that Ordinance, or (2) to Professional investors as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules made thereunder. Unless permitted by the securities laws of Hong Kong, no person may issue in Hong Kong, or have in its possession for issue in Hong Kong this material or any other advertisement, invitation or document relating to the products other than to a professional investor as defined the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules.

To Korean Residents: This material is not provided to make a recommendation for specific Korean residents to enter into a contract for trading financial investment instruments, for investment advising, for discretionary investment, or for a trust, nor does it constitute advertisement of any financial business or financial investment instruments towards Korean residents. The material is not provided as advice on the value of financial investment instruments or any investment decision for specific Korean residents. The provision of the material does not constitute engaging in the foreign exchange business or foreign exchange brokerage business regulated under the Foreign Exchange Transactions Act of Korea.

To PRC Residents: This material does not constitute an offer to sell or the solicitation of an offer to buy any financial products in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC"). BMO and its affiliates do not represent that this material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. This material may not be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

Singapore Residents: This document has not been registered as a prospectus with the Monetary Authority of Singapore and the material does not constitute an offer or sale, solicitation or invitation for subscription or purchase of any shares or financial products in Singapore. Accordingly, BMO and its affiliates do not represent that this document and any other materials produced in connection therewith may lawfully be circulated or distributed, whether directly or indirectly, to persons in Singapore. This document and the material do not and are not intended to constitute the provision of financial advisory services, whether directly or indirectly, to persons in Singapore. This document and any information contained in this report shall not be disclosed to any other person. If you are not an accredited investor, please disregard this report. BMO Singapore Branch does not accept legal responsibility for the contents of the report. In Asia, Bank of Montreal is licensed to conduct banking and financial services in Hong Kong and Singapore. Certain products and services referred to in this document are designed specifically for certain categories of investors in a number of different countries and regions. Such products and services would only be offered to these investors in those countries and regions in accordance with applicable laws and regulations. The Information is directed only at persons in jurisdictions where access to and use of such information is lawful.

To Thai Residents: The contents hereof are intended solely for the use of persons qualified as Institutional Investors according to Notification of the Securities and Exchange Commission No. GorKor. 11/2547 Re: Characteristics of Advice which are not deemed as Conducting Derivatives Advisory Services dated 23 January 2004 (as amended). BMO and its affiliates do not represent that the material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any regulatory requirements in Thailand, or pursuant to an exemption available under any applicable laws and regulations.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal.

These documents are provided to you on the express understanding that they must be held in complete confidence and not republished, retransmitted, distributed, disclosed, or otherwise made available, in whole or in part, directly or indirectly, in hard or soft copy, through any means, to any person, except with the prior written consent of BMO Capital Markets.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A, (Member FDIC), Bank of Montreal Europe Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member FINRA and SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, Bank of Montreal Europe Plc in Europe, BMO Capital Markets Limited in the U.K. and Australia and BMO Advisors Private Limited in India.