

# Market Analysis

Ad-hoc research into market moving events from our in-house analysts

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## PREVIEW: BOC Rate decision and MPR, Wednesday 22<sup>nd</sup> January 15:00 GMT / 10:00 ET

**The BoC is expected to stand pat on rates, holding its policy interest rate unchanged at 1.75%. The MPR report is expected to feature growth downgrades. The tone of policymakers is likely to be cautious. Rate decision due 1500 GMT/1000 ET on 22<sup>nd</sup> January; press conference to commence at 1615 GMT/1115 ET.**

**EXPECTATIONS:** The BOC is expected to leave its Policy Interest Rate unchanged at 1.75%, and money markets price this outcome with 100% certainty. TD Securities' analysts are expecting the BOC to deliver a cautiously upbeat message, arguing that near-term risks are tilted towards higher rates. However, other analysts look for forecasts to be trimmed; Capital Economics sees the 2019 and 2020 GDP forecasts being cut, although the longer-term estimates may be upgraded due to the Phase One US-China and USMCA deals. Therefore, CapEco believes the "downward adjustments to GDP, combined with the fact that the Bank's forecasts for the next two years already looked pretty weak, mean that the Bank is likely to sound a cautious note in its policy statement".

**RECENT DATA:** Since the last meeting, data has been mixed: GDP contracted by 0.1% in October, which led CapEco to believe the economy stagnated at best in Q4, much lower than the BoC's 1.3% annualised growth estimate. However, the consultancy argues that GDP should rebound in December as temporary factors dissipate; the desk also highlights the GM strike and the Keystone pipeline rupture for the GDP contraction in October. Retail sales also fared poorly, falling 1.2% despite expectations for a 0.5% gain, RBC highlighted the report was oddly soft and that it "will keep concerns alive that the domestic Canadian economic growth backdrop has lost its footing somewhat at the end of the year," and it agrees that Q4 GDP is shaping up to print firmly beneath the BoC's 1.3% forecast. However, more recently the latest job data was solid, rising 35.2k, driven by full time employment gains, which retraced the losses seen in November.

**SURVEYS:** The Q4 Business outlook survey pointed to a broadly positive business sentiment (aside from the Prairies, where indicators remained weak). The report noted the outlook is supported by expectations of healthy domestic and foreign sales. Employment intentions also increased, which RBC suggests "should also help balance the central bank's worries about slower growth". On inflation, the Survey of Consumers saw one-year ahead and five-year ahead inflation expectations decline slightly in Q4 2019, while two-year-ahead expectations were roughly unchanged since early 2018, although most see inflation remaining within its 1-3% target range.

**POLOZ ON RECENT DATA:** When asked about the weakness in a spate of economic indicators, Poloz cited strikes at Canada rail and bad weather as the cause, therefore any further comments on the indicators will also be eyed. Essentially, the governor has played down the relevance of some of the weak incoming data, noting that the Bank does not place an over emphasis on the labour market data, or indeed, any individual data print.

**POLOZ ON THE HOUSING MARKET:** On the housing market, Poloz stated if it strengthened, the BoC would be looking for signs of froth, noting that demand seems to be

outpacing the ability to build new homes, evident in the figures which saw new listings fall for a fourth straight month, and the sales-to-new-listings ratio increased further, RBC highlights.

**POLOZ ON TRADE:** Governor Poloz has been optimistic on the trade landscape, noting the potential downside risks of trade disputes have eased due to the Phase One deal and USMCA, which will remove a large source of uncertainty for many Canadian firms once ratified. He added that the bank is still looking for signs that the trade dispute is affecting sectors outside those which heavily export.

**LANE ON INSURANCE CUTS:** On the prospects of an insurance cut, Deputy Governor Lane announced the council did not consider benefits of an insurance cut at its previous meeting, noting that if inflation was persistently below the 1-3% target, then the BoC would be cutting. Note, the BoC's Median/Trim/Common average reading of CPI ticked up slightly to 2.17%, remaining well within its target range.

**NEUTRAL RATE/OUTPUT GAP:** In its previous MPR, the BoC estimated the output gap was between 0.00% and -1.00% in Q3-2019 (from a range of -1.25% to -0.25% in Q2-2019). The BOC also estimated that the neutral rate is at the midpoint of the estimated range of 2.25% to 3.25%.

BOC FORECASTS:	CONSENSUS	MPR (OCT.)
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Real GDP Growth	CONSENSUS	MPR (OCT.)
End-2019	1.60%	1.70%
End-2020	1.60%	1.60%
End-2021	1.80%	1.90%

Real CPI Growth	CONSENSUS	MPR (OCT.)
End-2019	-	2.10%
End-2020	1.90%	1.90%
End-2021	1.90%	2.00%