PREVIEW: Bank of Canada rate decision due Wednesday 26th January 2022 at 15:00GMT/10:00EST

- **Statement and MPR will be released at 15:00GMT/10:00EST, Governor Macklem press conference at 16:00GMT/11:00EST.**
- **Bank is expected to leave rates unchanged, but with a risk of a hike.**
- **7/31 analysts surveyed by Reuters expect a hike.**
- **If left unchanged, attention turns to guidance.**

SUMMARY: The Bank of Canada is expected to leave rates unchanged at 0.25% although there is the risk for a hike with 7/31 surveyed analysts expecting a 25bp hike to 0.50% at the January meeting, ahead of the current BoC guidance for the middle quarters of 2022. If the rate is left unchanged, attention turns to guidance to see whether this is bought forward to the end of Q1 (ie March). Market pricing looks for rates to be left unchanged, although this has unwound heavily from last week which saw up to a 90% chance of a 25bp hike in January after the BoC survey and CPI data. The MPR will also be released, analysts at TD securities see 2022 growth being revised lower, while inflation is expected to be revised 0.1% higher for 2022 but revised down by 0.1% in 2023.

LIFT-OFF: The latest Reuters survey saw analysts generally believe the BoC will leave rates unchanged in January, although 7 of 31 surveyed expect a hike will occur. Therefore, the expectation for January is for rates to be left unchanged, although the risk of a hike is there. If the rate is left unchanged, attention will turn to its forward guidance, which currently looks for lift-off "sometime in the middle quarters of 2022". If it is bought forward to the end of Q1, it will signal a March lift-off is coming. Analysts are currently split on whether the BoC will hike in March with 16/31 calling for rates to be left unchanged again, while the other 15 expect it will rise to 0.50% or more, however, all analysts noted the risk to the pace of rate hikes this year is that they come faster than expected. The median forecast is for the BoC to raise rates to 0.75% by the end of Q2 2022.

SURVEYS: The Business Outlook Survey sounded the alarm on inflation with 67% of firms expecting inflation to be above 3% over the next two years, although most predict it will return to target within one to three years. It also noted that demand and supply bottlenecks are expected to keep upward pressure on prices over the year ahead. However, the overall survey saw a continued improvement in business sentiment to see the indicator hit a record high, although it was held back by labour shortages and supply chain issues. Note, the Canadian labour market is back at pre-pandemic levels and has been for a while. A separate BoC survey showed consumer inflation expectations hitting a record high of 4.89% over the next year, noting most people are more concerned about inflation post-COVID than before, where consumers believe it is more difficult to control. Analysts at ING highlight that the latest survey saw respondents note they expect supply disruptions through H2 this year and that labour shortages are constraining output. ING write "where the economic outlook is robust, the jobs market is red hot and inflation is at generational highs, we see little reason for the BoC to delay tightening monetary policy." Meanwhile, ING adds that Ontario has announced a three-step plan to allow a full reopening from COVID restrictions from the end of January "which should be the final green light for the central bank to hike rates 25bps".

INFLATION: The latest CPI report saw the headline M/M and Y/Y metrics in line with expectations, although the core Y/Y measure saw a sharp rise to 4.0%, while the BoC eyed measures rose to 2.93% from 2.73%. Analysts at RBC, who expect the Bank to leave rates unchanged at this meeting, say "Inflation trends have evolved largely in line with the BoC's forecasts from the October Monetary Policy Report (4.8% vs actual 4.7% for Q4)". However, this still shows price growth above the 2% target rate and RBC's own tracking suggests not all that pressure can be explained by pandemic-related distortions. As such, RBC expects rates to rise soon and believe the BoC will use this meeting to signal the start of lift-off.

MPR: The MPR will also be released, analysts at TD securities see 2022 growth being revised lower, while inflation is expected to be revised higher for 2022, before being revised marginally lower in 2023. In October, the MPR saw 2021 growth at 5.1%, 2022 at 4.3%, and 2023 at 3.7%. CPI was seen at 3.4% for 2021, while 2022 is expected to be revised higher to 3.5% (prev. 3.4%), and 2023 CPI is expected to be revised down to 2.2% from 2.3%. In the October MPR, the output gap was estimated at about -2.25% to -1.25% and is expected to close sometime in the middle quarters of 2022.

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