PREVIEW: BoC rate decision due Wednesday April 13th at 15:00BST/10:00EDT; press conference at 16:00BST /11:00EDT

- **18/29 analysts surveyed expect a 0.50% hike to 1.00%, the others expect a 0.25% move.**
- **BoC is likely to reveal its QT process.**
- **The MPR will likely see inflation revised higher for the year before cooling in 2023, any revisions to the neutral rate will also be sought.**

SUMMARY: The BoC is expected to hike rates by 50bps to 1.0%, although the survey was not unanimous with 11/29 expecting a 25bp move, but market pricing is more or less fully priced in for 50bps in April. The Central Bank will also likely announce the details of their Quantitative Tightening (QT) process after hints from Governor Macklem and Deputy Governor Kozicki where they are expected to announce the end of the reinvestment phase. The balance sheet runoff is expected at a relatively fast pace as roughly 40% of their bonds are set to mature within the next two years. The meeting will be accompanied by the Monetary Policy Report, which will likely see inflation for the year revised higher following the spike in commodity prices, but it is expected to cool next year, albeit it is still not seen returning to target until at least 2024. Some analysts also expect a revision higher to the neutral rate forecasts, perhaps to 2.75% from 2.25%, but others suggest it will be left unchanged. The rate decision will be accompanied by a press conference with Governor Macklem where commentary will be eyed on the magnitude of the rate hike as well as details about the QT process.

RATE PATH: The Bank of Canada is expected to hike rates by 0.5% on Wednesday, taking its Overnight rate to 1%, according to 18/29 surveyed by Reuters. The others expect a smaller 0.25% move, but the poll highlights that all five of the largest Canadian banks are expecting a 0.50% move, followed by another 0.50% in June. However, the wider poll, in a close margin, expects the pace of rate rises to slow to 0.25% each month, reaching 2% by year-end - 10/22 expect two 0.50% hikes in 2022, while nine expect just the one and three believe there will be zero 50bps hikes from the BoC. In 2023, the poll saw the overnight rate at 2.25% in Q2 23, before pausing until the end of 2023.

50BPS: Currently, a 50bps hike in April is more or less fully priced in, but there is a risk of a smaller 25bp increment. Although after the 25bp move in March and with inflation still rising above the BoC's target range, calls for 50bps have increased while the labour market remains strong and well above pre-pandemic levels, where it has been for some time. Deputy Governor Kozicki highlighted the primary focus is to return hot inflation to its target and that she is prepared to act "forcefully" with rate hikes to do so. She added the pace and magnitude of hikes will be discussed at the April BoC meeting. Kozicki also noted that inflation is too high while labour markets are tight and there is considerable momentum in demand. The latest BoC Business Outlook Survey also raised the alarm on inflation, where firms' inflation expectations remain elevated. "More than two-thirds of businesses anticipate inflation will be above 3%, on average, over the next two years, while two-fifths expect it to be above 4%" - above the top end of the BoC's 1-3% target range. However, most firms expect inflation will be close to target in three years due to the expected rate hikes from the BoC and an improvement in supply chains. Kozicki was cautious about the high indebtedness, suggesting it could amplify the impact of rising rates and could worsen the impact of a future shock. However, she noted households on average are in better financial shape now than at the start of the 2017-18 tightening cycle.

OUTSIDE RISKS: Although the majority expect a 50bp move, there is a risk for a 25bp hike. As the BoC is expected to provide details of QT, it could be deemed as "overly hawkish" if they were to do this alongside a 50bp move. Meanwhile, analysts at Capital Economics highlight Governor Macklem "has developed a bit of a track record for doing less than markets are pricing in" after the BoC left rates unchanged in January and only hiked by 25bps in March. Cap Eco also highlighted the Central Bank may have concerns about the housing market as local real estate board data in Toronto showed average selling prices declined in March, which comes before the anticipated rise in mortgage rates. It is worth noting that analysts at Scotiabank, who have been calling for a more hawkish BoC, have suggested a larger 75bp hike cannot be ruled out as it believes the Central Bank is seriously behind in its fight against inflation.

QT: Based on recent commentary, it is likely we will see details on the BoC's Quantitative Tightening (QT) process; Governor Macklem said QT was the logical next step after rate rises begin and the timing of it will be transparent, while Deputy Governor Kozicki said QT will start in April. Governor Macklem noted when QT starts, the Bank will stop purchasing Canadian government bonds and maturing bonds would not be replaced when they roll off the balance sheet, suggesting a different approach to the Fed's proposed phase-in agenda. He suggested the balance sheet will shrink relatively quickly, with around 40% of the BoC's bonds set to mature within the next two years. The pace of QT will be determined by wage growth and longer-run inflation expectations. Macklem noted that when QT starts the BoC does not intend to actively sell bonds.

MPR: The meeting will also be accompanied by the latest Monetary Policy Report. We will likely see inflation forecasts revised higher in the short term amid the commodity price rally while the Reuters poll has inflation cooling next year, but it is expected to remain above the BoC's target until at least 2024. At the January MPR, CPI in 2021 was seen at 3.4%, then 4.2% in 2022 and 2.3% in 2023. GDP growth in 2021 was seen at 4.6%, 4.0% in 2022 and 3.5% in 2023. The Output Gap was seen as being essentially absorbed at around -0.75 to 0.25%. The Neutral Rate midpoint was at 2.25% (1.75% to 2.75%), some expect this to be revised higher to 2.75%, although others suggest it will be left unchanged.