PREVIEW: Bank of Canada Rate Decision & MPR due Wednesday 13th July at 15:00BST/10:00EDT

SUMMARY: The Bank of Canada rate decision will be released at 15:00BST/10:00EDT on Wednesday, July 13th. Economists widely expect the BoC to hike rates by 75bps to 2.25% from 1.50%, according to 27/29 economists surveyed by Reuters, following the 75bp hike by the US Federal Reserve in June. The latest MPR will also be released at the same time and there will be a press conference at 16:00BST/11:00EDT. The statement and MPR will be gauged for language on the pace of rate hikes throughout the remainder of the year after the latest meeting saw the BoC add language to act more "forcefully" to bring inflation back to target. Economists expect a 50bp hike in September to 2.75%, sitting in neutral territory, which is estimated between 2-3%. Analysts then expect the pace of hikes to slow further to 25bps for October and December, but lifting the rate above the top end of neutral to 3.25% by year-end, although some analysts expect rates to rise even further, while markets are pricing in rates of 3.45% by year-end. The MPR will likely see inflation revised higher after the hot May CPI report, while growth expectations are likely to be revised downwards on recessionary fears and the impact of tighter monetary policy.

RATE HIKE: After the BoC added language around acting "forcefully" to bring inflation back to target, coupled with hot inflation data, the BoC is expected to hike by 75bps at the July meeting. Although, it is worth noting that TD Securities believe there is an argument to be made for an even larger 100bp hike. The desk notes its Taylor Rule calls for a BoC policy rate of over 4.00% by the end of the current quarter, which uses the BoC's output gap measures as an input. However, TD do caveat that they doubt the Central Bank will be comfortable with such an aggressive move unless given a green light by the markets which currently price in 79bps in July. Meanwhile, TD also notes that the concerns about growth slowing faster than expected are valid, but Q2 growth is still likely to come in above 4% with inflation still moving higher.

FORWARD GUIDANCE: Attention will turn to any forward guidance on what hike increments we can expect next from the BoC, or if they alter the language around acting "forcefully". The latest Reuters poll sees the BoC hiking rates by 50bps in September, before slowing to 25bps hikes in both October and December to take the year-end rate to 3.25%, above the 2-3% estimated range of neutral - something that the BoC Governing Council has signalled in recent speeches. Analysts at RBC expect the economic growth risks from hiking rates too aggressively will be overshadowed by the medium-term cost of not doing enough. Although the latest Reuters survey looks for a 50bps hike in September, RBC is calling for another 75bp move. RBC highlighted the 7.7% Y/Y May CPI is well above its forecast in April of 5.8% in Q2 and warns that "higher price readings are beginning to seep into longer run inflation expectations". Although most still expect inflation to moderate towards pre-shock levels beyond the next two to three years, those who expect it to last longer are edging higher. If long-run inflation expectations were to unhinge it would require much larger and more damaging interest rate hikes, RBC said. The bank does expect inflation to peak soon, but it will not shift to more sustainable levels until demand slows significantly. Currently, markets are pricing in between a 50 and 75bps hike in September, before rising to 3.45% by year-end, implying approximately 200bps of tightening over the July, September, October and December meetings.

MPR: With inflation running above the BoC's expectations after the hot May CPI print of 7.7%, and given the ongoing global recession fears and enhanced monetary tightening, the BoC will likely revise their growth outlook lower within the MPR, while near-term inflation forecasts will see a revision higher. The April MPR noted CPI should average below 6% in H1 22, but given the 7.7% read in May, this will likely prompt the higher revision. The BoC also added CPI "should then steadily decline to about 2.5% in the second half of 2023 and to the 2% target in 2024". The April MPR saw 2022 inflation at 5.3%, 2023 at 2.8% and 2024 at 2.1%. Meanwhile, growth forecasts were seen rising at 4.2% in 2022, 3.2% in 2023 and 2.2% in 2024 and are expected to be revised lower due to the impacts of tighter monetary policy and the weaker global economic outlook. TD Securities look for growth to be revised lower in both 2022 and 2023, with upwards revisions to the 2022 inflation outlook.

RECENT SURVEYS: The latest Business Outlook survey showed concerns over near-term inflation increasing and it is expected to run higher for longer than the Q1 survey, while many expect significant wage and price increases. Businesses' expectations for near-term inflation have increased, and firms expect inflation to be high for longer than they did in the previous survey. Still, most see inflation returning to 2% over time. Nonetheless, households expect inflation at 5% in two years time and the majority of businesses expect inflation to be above 3% over the next couple of years. ING highlighted that this survey will not provide the BoC with any comfort. ING also stresses that the economy is running strong with a hot housing market and employment at record levels, all while inflation is still well above target.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com