Preview: BoC Rate Decision & MPR due Wednesday 26th October at 15:00BST / 10:00EDT, Press Conference at 16:00BST / 11:00EDT

SUMMARY: The Bank of Canada is expected to hike rates by 75bps at its October meeting, according to Reuters estimates, which have been updated since the latest September CPI data which came in hotter than expected. The margin is slim however, with 9/16 forecasting a 75bp hike while the remaining seven are looking for a 50bp move, and the Bloomberg survey is also split. Money markets are now leaning towards a 75bp hike with a 70% probability - so it is a close one for either a 50bp or another 75bp hike, but market pricing is leaning towards a 75bp hike as the most likely outcome. We will also see the latest forecasts from the MPR which is expected to show revisions higher to inflation and revisions lower to growth, and will then be followed by a press conference with Governor Macklem at 16:00 BST / 11:00 EDT, with eyes on reasoning behind the rate decision and for any future guidance. The hot inflation argument is the primary reason for a 75bp move, as well as another 75bp hike from the Fed expected in November, while slowing growth and a downbeat business outlook survey is being cited for 50bps. Commentary from Macklem was also key, as he warned that the BoC would have to do more if CAD depreciation persists against the USD, stressing the BoC will be watching the US economy, inflation and rates as factors when making their decision.

RATES: The BoC is expected to hike by 75bps taking its overnight rate to 4.00% according to a Reuters survey, with the consensus accelerating from 50bps after the hot inflation data. However, the Bloomberg survey is more split with 14 analysts looking for a 50bp move and 14 looking for a 75bp increment. Analysts had initially been looking for a 50bp hike, but the September inflation data saw a shift in tone, analysts at ING are one of the desks to change to a more aggressive view, noting the upside surprise in inflation and the return of job creation while consumer activity is holding up, leads them to expect a 75bp move. However, on the flipside analysts at RBC still look for a 50bp hike, but do note risks it could opt for a 75 bp hike. The desk notes a 50bp hike is still larger than normal while it is also cognizant of slowing economic growth and softening business sentiment that was evident in the BoC business outlook survey. Any commentary either within the statement or press conference about forward guidance will also be key, the latest Reuters poll (pre CPI) saw the terminal rate is expected to reach 4.25%, up from the prior 3.50%, with nearly all respondents saying risks are skewed towards a higher peak rate. However, since the inflation data, money markets are currently pricing a peak rate of around 4.50% in April, up from the prior 4.33% ahead of the release. Capital Economics expects the Bank to hike by 75bps in November, 50bps in December and a final 25bp in January to see a terminal rate of 4.75%. Rabobank expect the same, noting the BoC led the Fed into aggressive tightening policy, and they now expect it to lead the Fed on the way out.

CPI: The latest CPI data was hotter than expected with the Y/Y rate rising 6.9% (exp. 6.8%), but decelerating from the prior 7.0%, while the M/M index rose 0.1%, hotter than the expected unchanged print. The Core Y/Y rose 6.0%, accelerating from the prior 5.8%, while the M/M rose 0.4%, accelerating from the unchanged reading in August. The hot inflation accompanied with a weaker CAD will likely make inflation stickier, Oxford Economics warned. The average of the BoC-core measures was unchanged at 5.3%, albeit the prior month was revised higher resulting in the unchanged print. The Common measure was revised higher to 6.0% from 5.7%, while the median measure was revised slightly lower to 4.7% from 4.8%, and the trim was left unchanged at 5.2%. Governor Macklem has acknowledged the revisions in the common print in recent months, and said the Bank is reassessing the CPI common measure, which is becoming more difficult to use adding the BoC will focus more on the CPI trim and median measures of inflation.

RECENT COMMENTARY: Governor Macklem on October 14th noted recent CAD depreciation against USD and said if it persists we're going to have more work to do on interest rates - Note, USD/CAD has risen from c. 1.30 after the September rate decision, to c. 1.37-1.38 currently. Macklem added the BoC will also closely watch developments in the US economy, such as inflation and rates and factor that in as the BoC makes its decisions. Although the inflation data was hot, ahead of the release Macklem noted whatever the September CPI data shows, the economy will still be in excess demand with labour markets tight and inflation too high. On October 6th he also noted that normally when the BoC hike rates, CAD appreciates, so that does part of the work for them, however this time it is not happening he said. He also noted they need further information before they consider moving to a more finely balanced decision-by-decision approach, adding more rate hikes will be needed and more is to be done on inflation. Overall, it is clear Macklem is concerned about the lack of appreciation in the CAD and warned the BoC would have to do more if this does not change while noting that inflation is still hot and they are keeping an eye on decisions from the Fed, who are expected to hike 75bps in November with suggestions of a slowdown in the tightening pace in December.

MPR: The forecasts are expected to show a rise in inflation projections, while growth estimates are expected to be downgraded. After the hot inflation in September, it is likely inflation forecasts could once again rise for the short-term, but if the BoC signals a willingness to continue on aggressive tightening, the future inflation forecasts could be lowered to adjust for the impact of the Bank's monetary policy decisions. Any adjustments higher to the rate guidance will likely result in growth forecasts also being downgraded, while the latest GDP data for August was unchanged and September data is expected to show just a 0.1% gain on Friday. The latest business outlook survey was also cautious, noting many firms expect slower sales growth and think a recession is likely in the next year - suggesting the MPR will show lower growth forecasts. Analysts at Rabobank see GDP growth of 1% in 2023 and CPI of 3.4%, with risk skewed to lower growth and stickier inflation.

OUTLOOK SURVEY: For policy implications, it is worth highlighting the latest business outlook survey was quite sombre, noting business confidence has softened and most think a domestic recession is likely within 12 months while many are expecting slower sales growth as rates increase and demand slows, which would help support those arguments for a 50bp move. However, supporting a 75bp move, business inflation expectations rose with the 1yr outlook up to 7.11% from 6.82% while 2yr expectations rose to 5.22%, a fresh record, showing businesses expect the pace of inflation to decline at a slower rate despite actions from the BoC already. Analysts at Capital Economics point out a rebound in gasoline prices this month means headline inflation is likely to pick up over the remainder of the year, risking a further increase in inflation expectations.