Preview: Bank of Canada rate decision due Wednesday 8th March 2023 at 15:00GMT / 10:00EST

SUMMARY: The BoC is expected to keep rates at 4.50% after unveiling a "conditional pause" in January. Recent GDP data showed the Canadian economy stagnated in Q4, despite expectations for 1.5% growth, and was worse than the BoC had forecast, which many analysts say has cemented the case for a pause. Additionally, the January CPI decelerated, and was below market expectations, with a slowdown to within the BoC's 1-3% target band now within the realms of possibility for 2023, adding to the argument for the BoC to hold. However, the jobs market remains hot after the latest employment report rose 150k, adding to the 112k gain seen in December, all well above expectations and this could potentially hamper the BoC's goal of bringing inflation back to target. Nonetheless, analysts suggest the weak growth and slowing inflation mix should outweigh the hot jobs market. The March meeting is a statement-only affair and the rate decision will be released at 15:00 GMT / 10:00 EST. Although there is no MPR or press conference, Senior Deputy Governor Rogers will provide the latest economic progress report on Thursday, March 9th 18:45 GMT / 13:45 EST.

RATES: All analysts surveyed by Reuters expect the BoC to leave rates unchanged at 4.50% at this meeting. Money markets are currently pricing in a near certainty that rates will be left unchanged with a 97% implied probability, and just a 3% chance of a 25bp hike. Looking ahead, 17 of 30 analysts surveyed expect the BoC to keep rates unchanged throughout 2023, however, 13 are forecasting rates to be lower and two are forecasting higher rates. Money market pricing differs from the analyst view and is currently projecting a terminal rate of 4.60%, implying a 40% chance of another 25bp hike by year-end. TD Securities, who expects rates to be maintained through year-end, highlight "the BoC's commitment to previous forward guidance has been inconsistent, and we wouldn't be especially shocked if the BoC had one more surprise in store this cycle" and they believe risks still skew decisively towards higher rates. Meanwhile, analysts at ING are concerned that the economy will be more impacted by rate hikes than other major economies and see a strong chance of a BoC cut later in the year.

RECENT DATA: Canadian data has been leaning on the cool side. The January CPI rose 5.9% Y/Y, below the 6.1% pace expected and prior 6.3%, showing a 0.5% M/M rise, cooler than the 0.7% expectation, but well above the prior month's 0.6% decline. The average of the BoC-eyed measures slowed to 5.56% from a prior revised up 5.70%. Meanwhile, the latest GDP report saw growth stall in Q4 vs the expected rise of 1.5%, down from the prior 2.9% expansion rate. However, more timely data saw the Canadian S&P Global Manufacturing PMI advance to 52.4 from 51.0. The survey also noted improved growth rates, most notably for output and new orders amid reports of firmer demand while lower inflation was also seen as a supportive demand factor. The jobs market in Canada remains very hot, however. The January report saw 150k jobs added to the economy, on top of the 112k in December and well above the expected 15k. Note, the February jobs report will be released on Friday 10th March for a more up-to-date assessment. Nonetheless, labour market tightness may impede the BoC's goal of bringing inflation back to target. Meanwhile, inflation is still running hot elsewhere, including in the US and EU, which could also act as a headwind to the BoC's aim.

STATEMENT: Given it is a statement-only affair, all focus will be on any potential changes to the guidance, although this is expected to be left unchanged. The last statement saw the BoC signal a conditional pause; "If economic developments evolve broadly in line with the MPR outlook, the Governing Council expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases". It also caveated that the BoC "is prepared to increase the policy rate further if needed". The forward guidance is expected to be left unchanged at this meeting given signs of cooling inflation and slowing growth, something that will likely be acknowledged in the statement when talking about the current economy. Language on the labour market will also be interesting given the recent strength. TD Securities expect the statement to note "that inflation pressures have continued to subside (as expected), and that activity is expected to slow in 2023 due to the impact of higher interest rates. There will be some mention of a robust labour market performance, but we look for the BoC to describe the economy as unfolding in line with expectations." The desk also expects forward guidance to be left unchanged.

REACTION: In FX, ING highlights that with the BoC now at a pause there are fewer upside and downside risks for the looney. With the BoC pausing and the Fed still hiking, the rate differentials may have negative implications for the CAD. On the flip side, Canada has a vulnerable property market that is seeing a deep contraction due to higher mortgage rates and the pause from the BoC should prevent the build-up of housing-related risk premium. For the upcoming meeting, ING states a largely unchanged message by the BoC may have limited implications for the CAD. ING adds that markets will be monitoring whether the Bank will continue to leave the door open for more tightening if necessary, but there are very few reasons for that door to be closed currently. The desk continues “to expect a move below 1.3000 in USD/CAD by year-end, but that should mostly be the result of US dollar weakness and a generalised improvement in risk sentiment”.