Preview: BoC rate decision and MPR due Wednesday April 12th at 15:00 BST / 10:00 EDT; Press Conference 1 hour later

SUMMARY: The BoC is expected to keep rates unchanged at the 'terminal' rate of 4.5% in fitting with the central bank's guidance. This meeting will be accompanied by the latest MPR and the following press conference where any commentary on rate guidance throughout the rest of the year will be eyed, but the BoC will likely reiterate its "conditional pause" language. Growth expectations will likely be revised higher for Q1 23 as the Canadian economy appears more robust than previously thought, while updated inflation expectations from the BoC will be eyed to help gauge the next steps for policy after the "conditional pause", although the bar for rate hikes or cuts is quite high.

EXPECTATIONS: All 33 economists surveyed by Reuters expect rates to be unchanged at this meeting, while looking ahead 23 out of 31 expect the rate to remain unchanged through to year-end, while seven expect at least one 25bp cut, vs 13 from a survey complied one month ago. The BoC has stressed the current policy pause is conditional on how the economy evolves, 18 economists said they were split on whether the next move will be a cut or hike this year. The MPR will likely see an increase in the Q1 23 growth forecasts but TD Securities see 2023 growth unchanged with 2024 growth being revised lower. There will be eyes on the inflation forecasts as although inflation is slowing, it still remains elevated. Looking ahead on rates, RBC Economics note the bar is quite high for rate tightening to resume at the BoC, and analysts at TD Securities see a slowdown in growth leaving the BoC comfortable with rates at 4.5% all year. TD does note that recent consumer and business surveys are consistent with slowing inflation, but not a collapse in price pressures, meanwhile, for rate cuts, quite a bit more slack is needed in the economy for easing to be considered.

RECENT DATA: The March jobs report showed Canadian employment remains stronger than expected with jobs rising by 35k, above expectations and the prior, while the unemployment rate was unchanged at 5.0%, despite expectations for a rise to 5.1%. The latest growth data saw a M/M rise of 0.5% for January data, and the MPR in January had growth tracking at 0.5%. However, with that being quite dated, analysts at RBC Economics have growth tracking closer to 2.5% for Q1. The February CPI was cooler than expected, rising 5.2% Y/Y (exp. 5.4%, prev. 5.9%), while the core rose 4.7%, lower than the 4.8% expected and prior 5.0%. The BoC measures also moved lower, to 5.36% from 5.57%, which is a welcome development, but inflation still remains well above target. Looking ahead, 10/13 economists surveyed stated the bigger risk was that inflation in 2023 would be higher than they expected. With decent growth, a strong jobs market and elevated inflation some may question why the BoC is continuing ahead with its pause, but it is worth remembering they were the first central bank to start tightening and they also expect a slowdown in the middle of the year, waiting for the lagged effects of monetary policy to kick in. The latest BoS saw half the firms surveyed expect Canada to be in a mild recession over the next year, but that was down from the prior two-thirds, although it does not include the recent banking pressures seen in the US and EU.

BANKING: The BoC will likely comment on the US/EU banking crisis but it will largely be a reiteration of commentary from officials seen in recent weeks. Deputy Governor Gravelle said he is not concerned about Canadian banks, but the BoC is ready to act in case of severe market-wide stress and provide liquidity support to the financial system if it is required. Gravelle also added if Canada was faced with an extreme event that caused severe dysfunction in the Government of Canada bond market, the bank could resort to large-scale GoC bond purchases. However, the bar is very high for the bank to use them to support market functioning again. The BoC would also only offer extraordinary liquidity in extreme market-wide situations when the entire financial system faces funding constraints.

BUDGET: The latest budget was looser than expected and sees larger deficits, while it removed the plan to balance the books by 2027/28. Analysts at Oxford Economics expect the budget to provide a modest lift to GDP and inflation in the near term, but write it will not be enough to prompt the BoC to resume rate hikes. OxEco expects the new measures to boost GDP by 0.4% and CPI by 0.1% in 2023. Despite a looser budget, the consultancy does note its fiscal position is still favourable relative to G7 peers and still leaves some room to act if the Canadian economy sees a deeper downturn.

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