# Preview: Bank of Canada rate decision due Wednesday 7th June 2023 at 15:00BST/10:00EDT

- The Bank of Canada interest rate decision will be announced at 15:00BST/10:00EDT on Wednesday 7th June 2023, Press Conference at 16:00BST/11:00EDT.
- Expected to leave rates unchanged, with risks of a 25bps hike.
- Hawkish communications is expected in absence of a rate hike.

**SUMMARY**: The Bank of Canada is widely expected to keep rates unchanged at 4.5%, but with the possibility of a 25bps hike in wake of the recent stronger-than-expected GDP and CPI metrics, accompanied by robust labour market data. Desks are citing the likelihood of a hawkish hold on Wednesday, which could pave the way for a future rise in July. Since the prior meeting, as well as the aforementioned strong data, further warnings from Governor Macklem, and the GC discussing a hike at the April meeting, as the Minutes revealed, may all test the mettle of the current pause stance even though expectations remain for the GC to hold firm.

**EXPECTATIONS**: Out of the 28 economists surveyed by Reuters, 24 are looking for rates to remain unchanged, while the other 4 voted for a 25bps hike to 4.75%. Although, money markets are slightly more undecided with current pricing at 43% for a 25bps hike. For the year ahead, 40bps is being priced in with the year-end rate seen at 4.89%. Nonetheless, in recent months there has been an expectation that the BoC would keep its policy rate unchanged through the rest of 2023, but amid the recent GDP and CPI metrics, as well as a buoyant housing market (more below) officials are presented with a case to lift rates by 25bps in June. Despite saying this, ING still expects the BoC to leave rates unchanged at 4.5%, but cannot rule out a surprise increase after the data. Separately, RBC also expect rates to be left unchanged, but highlights that it is a very close call and expects communications to have a clear hawkish bias. Within this, RBC believes the main way they could raise hawkishness [without hiking] would be to put extra emphasis on the data to soften in the inter-meeting period in order for the Bank not to hike, making a July hike the clear base case. Lastly, on the global central bank footing, it is worth noting the RBA surprisingly hiked rates by 25bps earlier in the week in response to the elevated inflationary environment, with both the BoC and RBA ahead of the pivotal FOMC next week.

**RECENT DATA**: CPI rose 4.4% Y/Y in April, above the expected 4.1% and prior 4.3%, while the M/M index picked up to 0.7% (exp. 0.4%, prev. 0.5%), and although the BoC-eyed measures did tick lower to 4.7% from 4.97% the headline metrics continue to remain elevated and well above target. Additionally, the core measures slightly eased M/M and Y/Y to 0.5% (prev. 0.6%) and 4.1% (prev. 4.3%), respectively. On jobs, 41.4k were added in April, doubling the expected 20k and surpassing the prior 34.7k, accompanied by the unemployment rate remaining unchanged at 5.0%, against the expected lift to 5.1%. However, the jobs data was slightly dated ahead of May's report on Friday, where the economy is forecast to add a further 23.2k jobs and the unemployment rate anticipated to edge higher to 5.1%. Lastly, continuing to understate the resilience of the Canadian economy, Q1 annualized GDP printed at 3.1%, well above the expected 2.4%, with consumer spending the main growth component and also rising 3.1%.

**RECENT COMMENTARY**: Governor Macklem, in early May, noted there is a risk inflation will get stuck materially above the 2% target level and if signs are seen, the BoC is prepared to raise rates further, though he later reiterated (post-CPI) that inflation is to continue coming down. On this, he reiterated the Bank is committed to getting inflation down to target and a number of things have to happen for that to occur. Separately, the Minutes from its last meeting revealed that officials had discussed raising interest rates due to concerns about persistent inflation, with resilient economic growth, challenges in lowering inflation, and the risk of delaying action the main arguments in supporting the case for a rate rise. Moreover, the Minutes added while the BoC expects inflation to ease, it is cognizant that reaching its 2% target may take longer due to high services costs. As a reminder, the statement from the April meeting noted the "Governing Council continues to assess whether monetary policy is sufficiently restrictive to relieve price pressures and remains prepared to raise the policy rate further if needed to return inflation to the 2% target."

**REACTION**: As a result, with market pricing a 43% chance of a hike, ING adds that a hawkish hold should be enough to keep the Canadian dollar supported. Furthermore, and as ING spells out, "As long as the BoC does not push back against the pricing for a hike in the summer, we expect CAD to remain supported. Some lingering USD strength in June can put a floor around 1.33/1.34, but expect a decisive move to 1.30 in Q3 and below before the end of the year."

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