



PREVIEW: Bank of Canada rate decision & MPR due Wednesday 25th October 2023 at 15:00 BST / 10:00 EDT

SUMMARY: The BoC is widely expected to leave rates unchanged at 5.00% as according to the majority of economists surveyed by Reuters, which is in fitting with market pricing which looks for an 85% implied probability of a another pause and a 15% probability of a hike. There had initially been a hawkish shift in expectations with the prior statement acknowledging the BoC is prepared to do more if needed, which was exacerbated by some hawkish commentary from Governor Macklem. The BoC Governor stated that higher long-term bond yields are not a substitute for doing what needs to be done to get inflation back to target, noting they will decide at this meeting whether to stick with the current 5% rate, or take more action to restore price stability. However, the latest Canadian CPI report was cooler than expected which saw those hawkish expectations pare, with both JPMorgan and Goldman Sachs removing their call for a hike in October. With rates expected to be left unchanged, we will be looking to the statement for guidance, with the prior one noting that the Bank "is prepared to increase the policy interest rate further if needed". The BoC will also be releasing the latest Monetary Policy report with eyes on inflation forecasts after mixed recent inflation figures since the July MPR, while growth forecasts are likely to see a revision lower.

EXPECTATIONS: The BoC is expected to keep rates unchanged at 5.00%, according to a Reuters survey where 29/32 expect this to be the case, and with the remaining three expecting a 25bp hike. Looking ahead, the poll found that economists expect rates to be held at 5.00% for at least six months, with 20/30 economists expecting at least one rate cut before the end of June 2024. Nonetheless, the range of views of where the overnight rate will be by the end of June was split, as seven see it at 4.75%, 12 at 4.5% or lower, and 11 expect it to be at 5.00% or 5.25%. With many predicting easing by the end of H1 2024, it is worth highlighting that the September 6th meeting minutes stressed the Bank did not want to raise expectations of near-term rate cuts so we will be looking for more pushback at this meeting as well, whether that be in the statement, MPR or press conference. Within the Reuters survey, it found that while most expect the BoC is done with rate hikes, a significant minority, 8/18, said the risk of the BoC raising rates at least once more is high. Given that the prior release noted it is prepared to increase the policy rate further if needed, TD Ameritrade look for the BoC to maintain a hawkish tone within the statement and at the following press conference, by likely "signaling a willingness to hike in December or Q1 if inflation pressures do not subside".

MPR: Alongside the rate decision, the BoC will also be releasing the latest Monetary Policy Report (MPR) with participants attentive to the new inflation and growth forecasts, and ING warns "there is a risk those may hinder the attempts by Governor Macklem to maintain a hawkish stance". Since the last MPR, the inflation reports have been quite mixed, with June cooler than expected, while July core inflation was hot, August was hot and September was cool. TD Ameritrade wrote the cooler September print helps mitigate some of the inflation shock in the prior two months, but it is still facing a +0.4% mark to market on Q3 CPI. Meanwhile, growth metrics have softened since the last MPR and TD expect a notable downgrade to its growth forecasts, stating from January to July, the MPR saw material upgrades to the 2023 outlook, but they expect most of, if not all, will be unwound at the upcoming MPR.

DATA: The latest BoC Business outlook survey declined once again to levels not seen since Q2 2020, at the height of the pandemic. It found there was weaker sales growth and indicators of future sales than in past surveys, while there was also reduced plans for hiring and Capital Expenditures. There was also an increasingly widespread view that labour shortages are less intense than 12 months ago, while more firms are reporting expectations of slower growth in costs and selling prices. The overall sombre tone of the outlook survey reinforces expectations for the BoC to leave rates unchanged with slowing growth and prices, but the labour market is holding up well. The September labour market report was strong, adding 64k jobs, accelerating from the prior 40k and above expectations of 20k, however, it was led by a jump in part time employment while full time employment eased to 16k from 32k. On inflation, the September CPI report was cooler than forecast. Prices rose 3.8% Y/Y in September, beneath the prior and expected 4.0% and Core CPI rose 2.8%, cooling from 3.3% previously. Meanwhile, the M/M headline and core both saw 0.1% decreases. The BoC Core CPI average also eased to 3.97% from 4.27%. Nonetheless, it is still above the BoC's 2% target and the inflation reports in the two months prior to that saw prices accelerating. However, commentary on slowing prices within the BoC business outlook survey is encouraging.



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