



Preview: BoC policy decision due Wednesday, December 6th, 2023 at 15:00GMT/10:00EST

Summary: The rate decision is a statement-only affair and the BoC is widely expected to keep rates on hold at 5.00%. Attention will be paid to the statement to see if there are any tweaks after the recent softening in the growth and inflation data. The October statement noted that the "Governing Council is concerned that progress towards price stability is slow and inflationary risks have increased, and is prepared to raise the policy rate further if needed". Analysts at RBC note the BoC will remain mindful of inflationary risks and retain the option to move the interest rate higher, but they do not see that as likely to be necessary with easing inflation and slowing growth. Focus of the market is shifting to when will the easing cycle begin, but it is unlikely this will be acknowledged in the statement itself, with Governor Macklem recently stressing it is not the time to think about cutting rates. Given there is no press conference at this meeting, ING write that "One possibility is that the BoC de-emphasises the threat of another hike and emphasises a "higher-for-longer" narrative to hinder dovish speculation". Attention post-meeting will turn to a speech from Deputy Governor Gravelle on December 7th at 17:50GMT/12:50EST, ahead of Macklem on December 15th and the Summary of Deliberations on December 20th.

Interest rates: The BoC is widely expected to keep rates on hold on Wednesday, with the vast majority of analysts looking for rates to be left alone until at least the end of Q1 24, according to 25/26 analysts surveyed by Reuters, where only Barclays is looking for another hike in January. Money markets are currently pricing in rates at peak already while the first rate cut is fully priced by April but with a c. 70% probability of the first hike occurring in March. Throughout 2024, markets are pricing in over 100bps of easing, or four 25bp rate cuts throughout the year. Pricing is consistent with analyst expectations, where 18/26 polled see rates to be at 4% or lower by the end of 2024 from the current 5.00% level.

Recent Commentary: BoC Governor Macklem recently stated that interest rates may now be restrictive enough, largely a signal that the BoC was done with tightening policy. However, he refused to completely shut the door to further rate hikes, noting that if high inflation persists, the BoC is prepared to raise policy rates again. He noted that the latest inflation data was certainly encouraging and is good news, but currently, it is not the time to be thinking about cutting rates. Macklem added that inflation is still too high and progress in lowering it has been slower than what the BoC had hoped.

Recent Data: The October inflation data was cooler than expected, with headline Y/Y easing to 3.1% from 3.8%, the core easing to 2.7% from 2.8%, and the average of the BoC-followed measures dropping slightly to 3.8% from 4.0%. The M/M metrics, however, saw accelerations after the prior month's declines. With easing inflation, growth has also been disappointing, with the Q3 GDP contracting 1.1%, reversing from the prior 1.4% expansion and well beneath the 0.2% forecast. Meanwhile, the November unemployment rate has ticked up to 5.8% from 5.7%, although 25k jobs were added in the month, on the upside of expectations thanks to a surge in full-time employment while part time jobs slumped.

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