



PREVIEW: BoC rate decision & MPR due Wednesday January 24th 2024 at 14:45 GMT / 09:45 EST, Press conference at 15:30GMT / 10:30 EST

REMINDER: The BoC recently changed the timings of their rate decision and press conference. The rate decision, MPR and Governor Macklem's speech will be released at 14:45GMT / 09:45 EST. A press conference will be held after every single meeting at 15:30 GMT / 10:30 EST.

SUMMARY: The BoC is expected to keep rates on hold at 5% and it will likely maintain language in its statement that it is prepared to raise rates further if required, despite this increasingly becoming unlikely with many expecting rate cuts from April/June. The latest hot core inflation print saw calls for rate cuts pushed back slightly but there are some concerning signs on the labour market and growth. The most recent jobs report was soft with no net jobs added to the economy while the Q4 business outlook survey was rather sombre. Therefore the BoC faces a difficult scenario with inflation still well above target and a weak labor market, RBC Economics write that "economic developments have been soft enough to reinforce that further interest rate hikes won't be needed, but inflation (and wage growth) have also been too sticky to push the BoC to consider starting an easing cycle yet." On the MPR, the recent weak growth data could see downside risks to the near term GDP forecasts, while there will be plenty of attention on the inflation forecasts to help gauge when the BoC may begin their easing cycle.

INTEREST RATES: The BoC is widely expected to keep rates on hold at 5.00% according to all 34 economists surveyed by Reuters. There will be a lot of attention on the statement, MPR and press conference to garner clues of when the BoC will first cut rates. A hot inflation print in December has pushed back rate cut bets and all those surveyed within this poll also see rates unchanged in March as well. Further out to April, 12 expect a cut but 2/3rds of those polled see the first BoC rate cut in June or beyond. Money markets currently fully price in the first rate cut by June, with 30bps of easing priced in by then, although with 17bps of cuts priced in by April, it assigns a near 70% probability of an earlier cut in April.

STATEMENT & MPR: The BoC will likely maintain language that they are willing to "raise the policy rate further if needed", but this is seen more as a cautionary sentence with no more rate hikes expected by economists (and likely the BoC too). There are few forecasts available for the MPR but the recent economic slowdown could see the BoC revise down some of the near term growth forecasts, while the inflation forecasts will also be key to see how sticky the BoC sees inflation going forward. Although inflation was hot in December, RBC highlighted that the most likely trajectory for inflation going forward is still lower. Within the latest Summary of Deliberations, it highlighted that data indicated growth has continued to slow in Q4, and was broadly in line with the October projection, although members expect weakness in consumption and business investment would continue for the next two to three quarters. Members also agreed they would be watching for signs that the slowdown in the economy was translating into further and sustained easing in inflation.

QT: The BoC will likely continue with its quantitative tightening process where it is normalising the balance sheet by allowing maturing bonds to roll off. However, within the statement RBC economists highlight there is some potential the BoC could hint at an earlier-than-expected end to QT. The desk notes it "would likely take pains to communicate the primary objective of that change would be to ensure adequate liquidity in funding markets rather than flagging a shift to easier monetary policy and imminent rate cuts".

RECENT DATA: The latest Canadian inflation data was mixed, M/M price pressures eased on both headline and core but headline Y/Y accelerated to 3.4% from 3.1%, although the core eased to 2.6% from 2.8%. Nonetheless, the BoC's key measure, the average of the trim, median and common, saw an increase to 3.73% from 3.66%, which was upwardly revised from 3.60%. Also, the 3mth average of those core measures remains around 3.7%, well above the BoC's 2% target. Meanwhile, on a more positive note, the latest BoC survey of consumer expectations saw consumers' perception of inflation to have decreased slightly across the forecast horizon. On the labour market, the December jobs report was soft with the overall employment change unchanged despite expectations for a 14k rise. Within the breakdown, the 24k increase in part time jobs was offset by a 24k fall in full-time jobs, with the latter seen of more importance to the economy. The unemployment rate was maintained at 5.8% amid a decline in the participation rate, despite expectations for an increase to 5.9%.



BOS: The overall tone of the business outlook survey was quite sombre with 38% of firms expecting Canada to be in a recession over the next year, rising from 33%. Meanwhile, the recent indicators of future sales continue to moderate with businesses reporting less favourable business conditions in Q4, adding that softer demand means that labour markets are easing. 39% of firms reported outright decline in sales over the previous 12 months, attributed to higher rates and inflation, economic slowdown, and customers' financial situation. Meanwhile, on prices 54% of firms expect inflation to remain above 3% for the next two years, up slightly from the 53% in Q3. Also, 27% of firms expect it will take longer than four years for inflation to return to target, up from the 18% in Q3. However, firms do expect the size of price changes to continue to moderate over the next 12 months. On wages, wage growth expectations are gradually declining and 75% of firms think wage growth will be back to normal by 2025.

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