Preview: BoC Policy Announcement due Wednesday 6th March at 14:45 GMT / 09:45 EST; Press Conference at 15:30 GMT / 10:30 EST

Summary: The BoC is widely expected to leave rates on hold at 5.00% in March, with analysts expecting the first rate cut in June, in fitting with money market pricing where a full 25bp cut is priced by the June meeting. There will be no MPR at this meeting, but the focus will be on the guidance the BoC provides and the following press conference. The prior statement saw the bank drop language that it is prepared to raise rates further if needed, but it also gave little credence to upcoming rate cuts. The opening remarks from Governor Macklem will also be published at the same time as the rate decision, and any discussion around potential future rate cuts, or any discussion around an end to QT will be key. On rate cuts, the latest BoC Minutes saw the BoC are concerned about cutting rates too early, while Governor Macklem said the BoC discussion is shifting from whether monetary policy is restrictive enough, to how long to maintain the current stance, noting they are not working to a timetable when it comes to rate cuts. There have been few remarks from officials on QT, although analysts at RBC expect the end of QT to occur in April, therefore any clues or discussion around this in the March meeting will be of note.

Expectations: The consensus expects the BoC to hold its policy interest rate at 5.00%, with analysts projecting the first rate cut will come at the central bank's June confab, according to a poll by Reuters. The survey notes that while inflation has fallen back within the BoC's 1-3% target rate (at 2.9% Y/Y last), policymakers are not yet convinced that high inflation has been resolved yet, particularly as shelter costs remain elevated. The Reuters poll added that there was no clear consensus around the number of rate cuts coming this year, but around 70% of the economists surveyed are looking for 100bps of cuts or less - money markets currently price in 85bps of easing throughout 2024. On rates, BMO warns that "the risk is the first rate cut will come later than June. If the bank is going to make an error here, it is that they'll keep policy too tight for too long to make sure inflation is headed back towards their target or even lower," adding that "they're also concerned about a renewed pickup in the housing market, and just more recently, they've got the added wrinkle the Canadian dollar has started to weaken again".

Recent Data: The inflation data for January was softer than expected, supporting the removal of tightening bias in the prior BoC statement, and it has also seen money markets price in the first cut in June. Headline CPI in January fell to 2.9% Y/Y from December's 3.4%, beneath the expected 3.3%, marking the first time since June that the headline rate fell within the BoC's control range. The average of the BoC core measures meanwhile eased to 3.36% from 3.73%, a welcome sign but still above the 1-3% inflation-control target range. Meanwhile, the Q4 GDP data rose 1.0% on an annualised basis, above the 0.8% forecast and also above what the BoC were forecasting. However, RBC highlighted the details were much softer with growth almost entirely coming from net exports. "Domestic consumers and businesses on the other hand continued to pull back spending and investment activities". Note, that the February jobs report is due on Friday, after the BoC.

Recent Commentary: The BoC Governor last spoke on 6th February (before the inflation and growth data). At the time, Macklem said that monetary policy needs more time to ease remaining price pressures, noting that shelter price inflation is now the biggest contributor to above-target inflation. He also warned that volatility in global oil and transportation costs related to wars in Europe and the Middle East could add volatility to inflation, warning that risks do remain and the path back to 2% is likely to be slow. He also noted that discussion about future policy is shifting from whether monetary policy is restrictive enough to how long to maintain the current stance, and that the BoC is not working to a timetable when it comes to rate cuts. At the time he gave little credence to upcoming rate cuts, but it will be interesting to see if recent data has changed his mind at all.

Market Impact: Analysts at ING believe investors are underestimating the size of BoC easing. Nonetheless, they suspect this meeting will not change the picture dramatically for CAD assets. However, the softer CPI data could see the bank sound more optimistic about its fight against inflation and could see the BoC start to hint more explicitly about future easing. ING notes that "Given the rather conservative market pricing on BoC rate cuts, we think the balance of risks is tilted to the downside for front-end CAD rates and the Canadian dollar" this week. Their core view remains that the USD could see more support on more resilient data, and the CAD should benefit in the crosses, especially against other commodity currencies.

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