



Preview: BoC Policy Announcement due Wednesday 10th April 2024 at 14:45BST/09:45EDT

- BoC expected to leave rates on hold at 5.00%
- MPR to be released at the same time as rate decision; press conference at 15:30BST/10:30EDT
- Attention on the statement, MPR and press conference to see if BoC opens the door to a June rate cut

Expectations: All 38 economists surveyed by Reuters expect the BoC to keep rates on hold at 5% on Wednesday. The BoC will also release its latest Monetary Policy Report with updated forecasts and Governor Macklem will also give a speech. Any clues/signals within the releases of when the BoC will start easing will be of note. Many analysts are expecting the first BoC rate cut in June to 4.75%, although there is a risk it would be later than that. The poll was conducted between March 28-April 5th so it is likely not all forecasts encapsulated the March Canada jobs report, which saw a surprise drop with both full-time and part-time jobs declining on the month, while the unemployment rate jumped up to 6.1% from 5.8%. Of the 38 surveyed by Reuters, 27 expect a June cut, seven expect it to occur in July and four said September. Analysts at RBC expect the BoC to leave options open for how long it plans to keep rates at current levels before cutting, noting resilience in early 2024 GDP data gives the bank time to hold the line on rates for a little longer. However, with other data points showing signs of softening, the desk looks for the BoC to shift to cuts around mid-year. ING are of the view that the BoC will open the door to a possible move in June, noting the growth outlook is not as strong as at the start of the year, inflation is gradually returning to target and the central bank will want to avoid a recession where possible. Money markets are currently pricing in a c. 75% probability of the first BoC rate cut in June, with the first cut fully priced in by July.

Rate Outlook: Reuters highlight that both TD Bank and Scotiabank expect the bank to move later than June. There was another question in the poll, whether the timing of the first rate cut was more likely to be later or earlier than expected, 13/16 said later while the remaining three said earlier. 11 of the 16 said the greater risk was the BoC would deliver fewer cuts this year than their expected base case. Throughout the year, the BoC is expected to cut rates by 100bps to 4.00%, although 14/38 analysts surveyed expect fewer rate cuts than that, while six expect over 100bps of easing. Money markets however currently price in 73bps of easing throughout the year. Minutes from the March meeting suggested that the BoC was on the fence regarding the timing of rate cuts; policymakers think it is still too early to cut rates, but if the economy evolves in line with its expectations, then rate cuts may be seen sometime this year. That said, the minutes noted a "diversity of views" among officials about when there would be sufficient evidence to start the cutting cycle.

Recent Data: As mentioned above, the Canadian jobs report for March was weak with jobs falling M/M and the unemployment rate seeing a notable increase to 6.1%, the highest since January 2022. There is plenty of focus on inflation at the BoC, which has seen a lot of progress recently. The February CPI eased to 2.8% Y/Y on the headline with the core Y/Y at 2.1%, both within the BoC's target range of 1-3%. However, the BoC preferred measures, the average of the Trim, Median and Common, sits just above the top end of the target range at 3.13%. Although, the 3mth annualized numbers are at 2.2%.

Surveys: The Q1 BoC Business outlook survey saw firms report conditions improved slightly while the share of those expecting a recession also declined vs Q4 23. On inflation 40% of firms expect inflation to remain above 3% for the next two years, down from 54% in Q4. It also found that wage growth remains high but most firms expect it to slow, with 74% of firms looking for normal wage growth in 2025. The Consumer survey saw the share of those forecasting a recession in 2024 also decline, while inflation expectations saw the 5yr rise to 3.12% from 2.62% Q/Q, the 1 and 2yr inflation expectations were little changed.

Commentary/Balance Sheet: Deputy Governor Gravelle, on 21st March, said that the BoC will continue the process of normalising the balance sheet, but he is aware there is a risk it could be wrong about the CAD 20-60bn range and there is a risk that QT may need to end earlier than expected, although it should wrap up in 2025. Gravelle did state that ending QT early could be linked to factors such as persistent upward pressure on the overnight repo rate plus widespread take-up across many counterparties. Gravelle also added that when QT concludes, the BoC will begin purchasing money market instruments. Elsewhere, Senior Deputy Governor Rogers stressed the BoC needs to finish the job on inflation, but did not give a potential timeline for rate cuts.



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