Preview: BoC Rate Decision due Wednesday 5th June, 2024 at 14:45 BST / 09:45 EDT; Press Conference at 15:30 BST / 10:30 EDT

SUMMARY: The Bank of Canada is expected to cut rates by 25bps at its June 5th meeting, taking its key rate to 4.75%. The majority of analysts expect this outcome, with 22 of 29 surveyed by Reuters looking for a cut, but the remaining seven expect rates to be left on hold at 5.00%. Recent data has seen inflation fall within the BoC's target band, while growth data has disappointed. Money markets currently assign an 80% probability of a 25bp rate cut in June, with those odds being priced since the dismal GDP data released last week. Nonetheless, there will still be attention on guidance from the central bank to assess the future policy path, with some analysts sceptical on how much the BoC can diverge from the Fed (the FOMC is not expected to cut rates until September at the earliest). There will be no MPR release at this meeting, but there will be the usual press conference with Governor Macklem afterwards, but the text will be released at the same time as the rate decision and statement.

RATES: Although money markets and the majority of analysts look for the BoC to begin easing this week, there is a hawkish risk the BoC leave rates on hold. Markets assign a 20% probability of rates being left unchanged while seven out of 29 surveyed expect this to be the case, including Canadian banks TD Securities and Scotiabank, who expect the BoC to wait until July before easing, when it releases its next set of economic forecasts. Looking ahead, markets are currently pricing in 60bps of easing from the BoC by year-end, which implies between two and three 25bp cuts (100% priced for two cuts, 40% probability of a third). The Reuters Poll found that an overwhelming majority of those surveyed expect at least three cuts this year. Fourteen of the 29 surveyed expect rates to end the year at 4.00% (four cuts), another 14 expect rates to end the year at 4.25% (three cuts) or higher, while one analyst looks for five cuts, taking the rate to 3.75% by year-end. Given the Federal Reserve isn't expected to cut rates until at least September (perhaps even later), some are sceptical of how far the BoC can diverge from Fed policy. ING, for one, suggests the BOC may be cautious about signalling further easing as the rate spread with the Fed may widen excessively. There are also concerns that rate cut expectations could reignite property prices and further pressure living costs in Canada, although Reuters highlights that forecasts for house price inflation are currently subdued.

RECENT DATA: April inflation data was cooler than expected, rising 0.5% M/M despite expectations for a 0.6% reading, while the annual rate eased to 2.7% Y/Y from 2.9%, in line with expectations. Meanwhile, the average of the BoC core inflation measures (median, trimmed mean, and common), eased to 2.7% Y/Y from 3.00%, back into the BoC's 1-3% target band. The latest GDP data was also soft, with the quarterly annualised rate printing 1.7%, beneath the 2.2% forecast, while the prior saw a huge revision lower to 0.1% from 1.0% previously. Meanwhile, the April jobs report was hotter than expected, adding 90k jobs, while the unemployment rate was unchanged at 6.1%, despite forecasts for a rise to 6.2%. Wage gains, however, eased to 4.80% Y/Y from 5.00%. Rabobank highlights that although inflation is cooling, there are some worrying signs, noting the headline monthly numbers are not cooling as quickly as expected, with persistent stickiness in shelter, transportation and health care inflation. Rabo therefore suggests that inflation may not be sufficiently low enough to warrant a rate cut at this stage, but its analysts still look for a 25bp cut in June, possibly due to mounting pressure in other sectors of the Canadian economy.

RECENT COMMENTARY: There has not been much commentary from BoC officials recently. Governor Macklem last spoke on policy on May 2nd, before the aforementioned data, so we do not know his latest thoughts following the soft inflation and growth data, or the hot jobs report. Nonetheless, he did acknowledge there is a limit to how far US and Canadian interest rates can diverge, though they are certainly not close to that limit. When he was quizzed on when rates were coming down, he towed the usual line that the BoC is looking for assurance the recent fall in underlying inflation will be sustained. He suggested inflation will likely stay close to 2.9% for the next several months, in part due to rising gasoline prices, but also noted that the BoC could start cutting before inflation hits 2%, but stressed the importance of seeing a sustained decline in inflation. He also noted that if the BoC cuts rates and the CAD weakens, it is something policymakers will take into account on how much they need to reduce rates. However, in the prior press conference, Macklem did say he was pleased with the recent cooling inflation, and therefore the further cooling seen in April will likely only be further welcomed, although there may be some concerns around the sticky headline numbers.

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