



Preview: BoC Rate Decision, MPR and Opening Statement due Wednesday, July 24th at 09:45EDT/14:45BST; Press Conference at 10:30EDT/15:30 BST

SUMMARY: The BoC rate decision, MPR and Governor Macklem's opening statement will be released at 14:45 BST / 09:45 EDT on Wednesday 24th July 2024. There will then be a press conference with Governor Macklem and Senior Deputy Governor Rogers at 15:30 BST / 10:30 EDT; Macklem will read his opening remarks, and then there will be a Q&A. Rates are expected to be cut by 25bps, taking its policy rate to 4.50%, the second consecutive 25bp cut from the BoC. However, this is not a certainty with some analysts, 8/30 surveyed by Reuters, looking for a hold. The remaining 22 analysts look for a cut, while money markets currently price in a 25bp cut with a 92% implied probability. The statement, MPR and press conference will be used to gauge appetite from the BoC for rate cuts throughout the year-end, money markets are fully pricing in at least two rate cuts this year (including July), with a c. 50% probability of a third, which would take rates to 4.00%. The Reuters survey saw a slim majority, 16/30, forecast two more rate cuts after July, taking its policy rate to 4.00% by year-end. However, 10 surveyed expect rates to end the year at 4.25%, while four expect rates to end 2024 at 3.75%. Recent data has been on the soft side with the unemployment rate rising and inflation falling within the BoC's target range, which bolstered calls for a cut at this meeting. Macklem has not spoken since recent key data points, therefore his views on data developments will be of note.

RATES: The BoC is expected to cut rates by 25bps, taking its policy rate to 4.50%, in what would be a back-to-back rate cut from the BoC after cutting by 25bps in June, kicking off the easing cycle. Expectations are not unanimous, however, with 8/30 surveyed by Reuters looking for the BoC to keep rates on hold (the remaining 22 expect a cut). Money markets currently assign a 92% probability of a rate cut in July. Looking ahead, markets are fully pricing in two 25bp rate cuts this year, with a 50% probability of a third. ING are of the view that the BoC cut rates again in July and expects a further 50bp of rate cuts thereafter. The desk acknowledges the rise in the unemployment rate and sub-forecast inflation led the bank to shift its view to expect a rate cut at the upcoming meeting. There has been some question as to how much the BoC can cut before the FOMC lower rates, although Governor Macklem has admitted there is a limit to how much the BoC can diverge from the Fed, he said they are nowhere near that level yet. The Fed is widely expected to lower rates in September this year, with at least one more rate cut fully priced, with a c. 50% probability of a third. The Reuters survey saw a slim majority, 16/30, forecast two more rate cuts after July, taking its policy rate to 4.00% by year-end. However, 10 surveyed expect rates to end the year at 4.25%, while four expect rates to end 2024 at 3.75%.

HOLD OR CUT: As mentioned above, the recent cooling of the labour market and price pressures has seen rate cut bets ramp in Canada. However, JPMorgan, Moody's and UBS expect the BoC to leave rates on hold in July. Although RBC's base case is for a cut, they do provide arguments for a hold. Noting that two CPI prints where the monthly changes in core measures have been higher in May and June than through January to April, and the absence of hard landing growth risks means the BoC could skip a meeting. It is also worth noting that RBC highlights (in a separate note) that the three-month annualized BoC preferred core measures have been ticking higher since April but the lower prints early in the year mean the six-month readings are still trending lower.

RECENT DATA: Recent data has been on the cool side, inflation continued to ease with the average of the BoC core measures rising 2.6% Y/Y in June, down from the prior 2.63%, which was revised down from 2.70%. Meanwhile, the June jobs report was soft with the unemployment rate ticking up to 6.4% from 6.2%, above the 6.3% forecast. The monthly employment change was also disappointing, falling by 1.4k, with a decline of 3.4k full-time jobs, and a gain of 1.9k part-time jobs, well beneath the expected gain of 22.5k and prior gain of 26.7k.

SURVEYS: The latest business outlook survey saw that most respondents expect inflation to return close to target in 2-3 years, while outlooks were mostly unchanged from the prior quarter, remaining more pessimistic than average. The share of firms reporting labour shortages is at near survey lows, but only a few firms plan to reduce headcounts. On prices, firms expect the growth of their input prices and selling prices to slow, suggesting that inflation will continue to decline over the coming year.

COMMENTARY: Governor Macklem spoke several times throughout June, but he has not spoken since the May or June inflation reports, or since the June employment report - so his previous views may be out of date. Nonetheless, Macklem noted that monetary policy has cooled the economy, inflation has come down, and underlying inflation continues to ease gradually, but the BoC still need to get inflation down further to their targets. He also reiterated that there is a limit to how far the BoC can diverge on rates from the Fed, but they are not close to that limit. He acknowledged the BoC cannot rule out new bumps but they look increasingly on their way to hitting their target. Going forward, the BoC will be looking for wage growth to moderate further, and they are starting to forecast this with inflation now much lower and the labour market rebalancing.

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