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Central Bank Weekly - 30th August

Central Bank Weekly: Previewing BoC rate decision

PREVIEWS

BOC POLICY ANNOUNCEMENT (WED): The latest Reuters Poll revealed that the BoC is expected to cut rates to 4.25% on September 5th, the third consecutive 25bp rate cut. Slowing growth and a cooling labour market will likely keep inflation from rebounding, with the latest inflation report seeing the BoC eyed average return closer to target. Attention will likely lie on the statement and following press conference where participants will be looking for clues of further easing. The Reuters poll found that analysts expect Canadian interest rates to end 2024 at 3.75%, according to 20 of the 28 surveyed, while seven see the year-end rate at 4.00% and one economist sees it at 3.50%. In July, Governor Macklem noted that if inflation continues to ease broadly in line with their forecast, it is reasonable to expect further cuts in the policy interest rate, but the timing will depend how the BoC sees opposing forces of inflation play out, noting overall economic weakness is pulling inflation down, but price pressure in shelter and other services are holding inflation up. The prior statement also acknowledged that risks to the inflation outlook are balanced, dropping the language from April that the BoC was more concerned about upside risks. Money markets currently price in 25bp cuts at each meeting for the remainder of 2024, the July inflation data saw the average of the BoC core measures ease to 2.43% with the prior revised down to 2.57% from 2.60%, enforcing rate cut expectations. The July Jobs report saw a decline on the headline, but it was primarily led by part time jobs with full time jobs surging. The unemployment rate surprisingly was left unchanged at 6.4%, despite expectations for a tick up to 6.5%. Nonetheless, with slowing growth and inflation seemingly returning to target, the BoC has scope to continue with 25bp rate cuts.

REVIEWS

N/A

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