PREVIEW: BoC rate decision due Wednesday 11th December 2024 at 14:45GMT/09:45EST, Press Conference at 15:30GMT/10:30EST

SUMMARY: The BoC is widely expected to cut rates on Wednesday 11th December, with the consensus looking for another 50bps rate cut, but with a risk of a smaller 25bp move. Recent data has been mixed, the latest inflation report was hotter than forecast while growth data disappointed. However, the November jobs report saw a notable rise in the unemployment rate, which led to a dovish shift in expectations towards a 50bps move. Before the jobs report, market pricing was more split between a 25 or 50bps move, but now prices in 47bps of easing, implying an 88% probability of such a move, with a 12% probability of a 25bps cut. The Reuters survey also noted that many economists shifted to a 50bps rate cut view after the jobs report. The prior BoC meeting saw the central bank cut rates by 50bps, a decision made to support economic growth and keep inflation close to the middle of the 1-3% target range. Participants have been questioning whether the BoC will go ahead with another 50bps rate cut to support economic growth, or perhaps slow to a 25bps rate cut due to the recent uptick in inflation, but the recent jobs report has seen these expectations lean towards the more dovish outcome. Note, the policy announcement and Governor Macklem's text will be released at 14:45GMT/09:45EST, ahead of the 15:30GMT/10:30EST press conference. There will be no update to the Monetary Policy Report and economic forecasts at this meeting.

EXPECTATIONS: The BoC is expected to cut rates by another 50bps on Wednesday, according to 21 out of 27 economists surveyed by Reuters, with the remaining six looking for a 25bps rate cut. The Reuters survey highlights that many of those looking for a 50bps rate cut adjusted their call after the jobs report on Friday, which saw the unemployment rate surge to 6.8% (an eight-year-high when excluding COVID), which was also coupled with a notable increase in the participation rate. Money markets are also largely pricing in a 50bps move, with 47bps of easing currently priced vs. c. 39bps before the latest labour market report. A 50bps rate cut from the BoC would take rates to 3.25%, which is currently the top end of the BoC neutral rate, although Goldman Sachs forecast the neutral rate in Canada at 2.25% - the bottom end of the BoC's estimate range.

RECENT DATA: As mentioned above, the latest labour market report saw a notable rise in the Canadian unemployment rate with markets and analysts now looking for another 50bps rate cut. However, before the jobs report, views were split on whether the BoC would go ahead with another 50bps rate cut or slow back down to a 25bps pace. Expectations were building for another 50bps move after disappointing GDP data with Q3 GDP growth rising at an annualized rate of 1.0%, beneath the 1.5% BoC projection in October. September GDP rose just 0.1%, and StatsCan estimated that it rose 0.1% in October, showing a weak start to Q4 GDP. Although economic growth and the labour market are slowing, the latest inflation report was hotter than expected with the average of the BoC core measures ticking up to 2.4% from 2.27%. However, in the October rate decision, the BoC noted that they cut by 50bps to support economic growth and keep inflation close to the middle of the 1% to 3% range while Macklem acknowledged that going forward, they expect to see some monthly fluctuations in inflation so this could be explained as that and it is unlikely the Central Bank will put too much onus on just one report.

25 OR 50?: The consensus and market pricing very much lean towards a 50bps move, but a 25bps rate cut is not completely out of the question given the recent inflation data while some may argue the threat of Tariffs on Canada from US President-elect Trump would be inflationary and thus may require some caution ahead of his inauguration in January. However, it is unlikely that central banks would front-run fiscal policy with the measures currently only proposals. Goldman Sachs also highlighted that the recently announced fiscal stimulus has raised upside risks to growth next year. However, the slowdown in growth and the rising unemployment rate support the case for another 50bps rate cut with growth coming in well beneath the BoC's October forecast (1.0% vs 1.5%) and the unemployment rate shooting up in November to an eight-year-high (excluding COVID). Meanwhile, although the inflation data was hot, it is just one report and still within the BoC's target band while it can also be argued a slowing economy could keep inflation down.

RECENT COMMENTARY: There has not been much communication from the BoC since the last meeting, Mendes spoke, echoing Governor Macklem and the BoC statement that if the economy evolves broadly as forecast, it is reasonable to expect further cuts and that decisions will be made meeting-by-meeting. Meanwhile, on 6th November, Deputy Governor Rogers spoke after the US election, noting that the BoC is absorbing what they are seeing and starting to think ahead. Macklem also spoke, albeit in close proximity to the prior BoC meeting and before the major data points but he said they will have to discover the neutral rate over time and the broad direction of rates is lower, but the pace is unclear.

USD/CAD: Goldman Sachs writes that another 50bps cut from the BoC should put some upward pressure on USD/CAD. However, "In the medium term, we have more conviction that terminal rate pricing in Canada is too high. We also think there should be a greater tariff premium priced into USD/CAD, and see room for further upside in USD/CAD over the medium term".