



PREVIEW: BoC rate decision due Wednesday 12th March at 13:45GMT/09:45EDT

SUMMARY: The BoC will publish their next rate decision on Wednesday 12th March 2025 at 13:45GMT/09:45EDT alongside the accompanying statement from BoC Governor Macklem, ahead of the press conference at 14:30GMT/10:30EDT. The BoC is expected to cut rates by 25bps on Wednesday although some do look for the BoC to keep rates unchanged. The main challenge to the BoC is the impact of tariffs but it is hard to quantify the overall impact until the final rate, duration and on what products have been decided, as the situation is currently very fluid. The unknowns result in a lot of uncertainty, and even that can have an impact on the economy before the measures take effect. Given the uncertainty and US President Trump's love for tariffs, one more cut at this meeting is likely but the path ahead will likely see a slowdown of the pace of rate cuts. The second 25bps rate cut is not fully priced until July. Recent data saw an uptick in inflation, a disappointing labour market report, while Q4 GDP growth was strong, it was buoyed by the sales tax holiday, although the main focus right now is on the impact of upcoming tariffs.

EXPECTATIONS: The Bank of Canada is expected to cut rates by a further 25bps, taking the target for the overnight rate to 2.75%. However, a small minority (3/23) of economists surveyed by Reuters, expect rates to be left unchanged. A 25bps rate cut is currently priced with a c. 70% probability, with a 30% probability for rates to be left on hold. Looking ahead, money markets are pricing in 72bps throughout the year which fully prices two rate cuts, with an 88% probability of a third. There is a tremendous amount of uncertainty regarding the economic outlook in Canada due to tariffs set to be implemented by US President Trump, which has been a nightmare for officials and economists due to the constant changing of proposals, with participants still not 100% sure as to what the final tariffs will look like. This makes it difficult to forecast the path for monetary policy further out the year, but recession fears are rising. ING expects the BoC to cut by 25bps in March, and expect another 25bps rate cut in Q2. Regarding the balance sheet, the BoC announced an end to QT at the January meeting, and Macklem stated the Bank will restart asset purchases in early March, beginning gradually so that its balance sheet stabilizes this year and then begins to grow modestly in line with economic growth. However, he did stress they are a long way away from needing QE.

ECONOMY: The BoC's main focus right now is on the impact of tariffs from the US, and although inflation has been ticking up recently (BoC eyed measure at 2.53%, prev. 2.36%), the economic slowdown expected ahead from the impact of tariffs is the clear focus of the BoC. Governor Macklem acknowledged that if US tariffs are long-lasting and broad-based, there will not be a bounce back in the Canadian economy. He noted that the updated BoC model shows Canadian output would fall almost 3% over two years if the US imposed tariffs, all but wiping out growth forecasts for 2025 and 2026. It also shows that exports would fall 8.5% in the year after tariffs took effect. As it stands, Trump has delayed the fentanyl related tariffs by one month until 2nd April on all products that comply with the USMCA trade agreement, but those that are not compliant, are still subject to tariffs. However, from April 2nd, if Trump is not satisfied with progress on reducing the flow of fentanyl into the US, the tariffs will go ahead, alongside the planned reciprocal tariffs that are set to be enforced from the same date. Canada has also enforced reciprocal tariffs on the US in response. Note, Canada also enforced tariffs on China (back in October, 100% and 25% import duties on China made EVs and steel and aluminium products), which has recently seen China issue retaliatory tariffs on agriculture, with a 100% tariff on USD 1bln worth of Canadian rapeseed oil, oil cakes and pea imports, and a 25% duty on USD 1.6bln of Canadian aquatic products and pork.

USD/CAD: USD/CAD has seen a wide trading range in 2025, primarily due to US President Trump's threats against the Canadian economy through tariffs. USD/CAD traded as high as 1.4795 and as low as 1.4150, and currently trades around 1.4400. Analysts at ING write that current trading levels embed around 2% of risk premium into the CAD, and that is only half of the peak risk premium in early February, but also noting that USD/CAD is also embedding a markedly more dovish view on Fed rate cuts with US growth concerns seeing traders increase rate cut bets. ING writes that their view for the coming months is that downside risks for CAD remain in place, even without a flat 25% tariff, as when reciprocal tariffs come into play from April 2nd, Canada should be disproportionately affected due to its high export volume to the US. ING "expect the US dollar to appreciate into the summer on the back of US tariffs, USD/CAD can find support beyond the 1.45 level before easing back towards the low 1.40s in late 2025, when US protectionism may start to be scaled back."

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