

PREVIEW: BoC Rate Decision due Wednesday, 15th July 2026

BoC Rate decision, MPR, and Governor Macklem text due at 14:45BST/09:45EDT, Press Conference at 15:45BST/10:45EDT

- The BoC is expected to hold rates at 2.25%, said all economists surveyed by Reuters.
- The meeting includes an updated MPR; A broader pickup in inflation would likely be required for the neutral rate range estimate to change.
- So far, policymakers are comfortable with the current level of rates to keep inflation contained.

SUMMARY: The BoC is expected to leave its policy rate unchanged at 2.25%, with policymakers comfortable that the current rate is sufficient to keep inflation contained. Rates at the lower end of the neutral range have allowed the central bank to adopt a wait-and-see approach amid uncertainty over trade policy and conflict in the Middle East, even as the labour market remains volatile. Since the last meeting, inflation accelerated in May, retail sales missed expectations, April GDP exceeded forecasts, PPI remained subdued, and the labour market stabilised in June. Concerns over rising inflation have eased following the May data, given that oil prices have fallen back to pre-conflict levels. However, renewed tensions in the Middle East leave the Governing Council uncertain about the inflation outlook. BoC Governor Tiff Macklem has said there has so far been little pass-through from higher oil prices to the prices of other goods and services. On trade, the USMCA has shifted to rolling negotiations rather than renewal, with talks set to continue as the agreement undergoes annual review by the US until either a new deal is reached or its 1st July 2036 expiry date.

EXPECTATIONS: The BoC is expected to leave the overnight rate unchanged at 2.25% at its July meeting, according to all 36 economists surveyed in the latest Reuters poll. 19/30 economists expect rates to remain unchanged until at least July 2027, while money markets continue to price a greater likelihood of tightening, assigning an 80% probability to a 25bps rate hike by year-end. Adam Schickling, a senior economist at Vanguard, said more energy price increases feeding through the economy or a de-anchoring of inflation expectations would be needed to justify a rate hike. "An evolution of trade policy to the downside, broader economic contraction or higher unemployment rates could trigger a cut."

DATA: Data since the June meeting has painted a mixed picture, with firmer inflation, a modest improvement in the labour market in June, stronger-than-expected GDP growth in April and higher petrol prices supporting retail sales in May after a weak April. Headline inflation rose 3.2% Y/Y in May (prev. 2.8%), above expectations of 3.0%. Core inflation also edged higher, with the BoC Average measure rising to 2.27% Y/Y (prev. 2.20%). PPI increased 1.2% in May, below expectations of 1.4% (prev. 2.0%). In the labour market, employment stabilised in June, rising by 18.2k (exp. 10k; prev. 88k), allowing the unemployment rate to edge down to 6.5% from 6.6%. Gains were driven by part-time employment, which rose by 17.5k after falling by 66.2k in May. Permanent employee pay growth accelerated to 3.7% from 3.2%. Oxford Economics expects job creation to remain challenging in H2 amid headwinds from a declining population, ongoing US tariffs, prolonged trade policy uncertainty and heightened geopolitical tensions. "The unemployment rate will likely rise again in Q3 before a shrinking population and renewed, albeit modest, job creation cause it to fall." Elsewhere, April core retail sales, excluding petrol stations and motor vehicle and parts dealers, fell 0.6% M/M, marking a second consecutive monthly decline.

COMMENTARY/MPR: At its previous meeting, the Governing Council signalled it was comfortable with the current level of interest rates, reiterating it would look through the near-term inflationary impact of the conflict but warning that if energy prices remained elevated, "we will not let their effects become broad-based persistent inflation". Policymakers said there was limited evidence of broad-based pass-through from higher energy prices to other consumer prices. Macklem later reiterated this view following the May CPI report, saying the BoC was "not seeing so far much spreading of higher oil prices to other prices of other goods and services". Policymakers continue to take a nimble approach, viewing current inflation pressures as contained, although broader price pressures would warrant tighter policy. Conversely, if the US were to impose new trade restrictions on Canada, "we may need to cut the policy rate further to support economic growth". This meeting will include the Monetary Policy Report, with the current neutral rate range estimated at 2.25-3.25%. A broader pickup in inflation would likely be required for that estimate to change.

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