

Canada Watch

BoC says is too early to consider cuts

Key takeaways

- The BoC remained on hold in March with the overnight rate target at 5.00%. It kept its QT policy unchanged.
- The BoC said underlying inflation pressures persist, but wage pressures may be easing and growth remains below potential.
- We expect BoC to start cutting in June 2024 given economic weakness and inflation trending down, with risks of a later cut.

BoC on hold with the policy rate at 5.00%

The Bank of Canada (BoC) kept the policy rate unchanged at 5.0% (E. 5.0%, BofA 5.0%) on March 6, as [expected](#). It continues to normalize its balance sheet.

BoC still sees persistent inflation pressures...

The statement points to persistent underlying inflationary pressures with core inflation measures still in the 3.0 to 3.5% range. So, the governor Tiff Macklem was clear in the press conference saying that "it is too early to consider lowering the policy interest rate.", as the BoC expects future progress on inflation to be gradual and uneven.

...but sees some progress, so the next movement is a cut

The statement highlights that: (1) even though growth in 4Q was higher than expected the pace remains weak and below potential and (2) it says that "there are now some signs that wage pressures may be easing". Furthermore, the BoC sees inflation moving below 3% in the second half of the year.

We expect the BoC to cut in June

We expect the BoC's next movement to be a cut given that [core inflation regained a falling trend](#) and the [weakness in economic activity](#). We believe the first cut will happen in June as the BoC will likely wait until core inflation and wage growth show a clear downward trend. We expect the policy rate at 3.75% by end-2024. The main risk to our call is that the BoC decides to wait a bit more and cuts in July instead of June (July has MPR). We believe the [BoC can cut even](#) if the Fed takes longer to cut.

FX – paring weakness, staying rangebound

Although the statement had a few dovish elements such as wage pressures easing, the market did not see a strong hint that a cut in April is likely. As the pricing for April cut has been reduced, CAD front-end volatility has also fallen and the currency has moderately appreciated amid on-going USD sell-off, paring some of its recent weakness. We still expect USDCAD to stay above the 1.35-handle for now as disinflation continues ([World at a Glance, 28-Feb-2024](#)). USDCAD should be rangebound until the next US catalyst triggers a broad-based USD move. The overall level of FX vol, including USDCAD, is relatively muted near multiyear lows in G10, despite USD gains year-to-date. We continue to expect more material CAD appreciation to take place in H2 '24.

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BoC: Bank of Canada

QT: Quantitative tightening

E.: Bloomberg consensus estimate

CPI: Consumer Price Index

MPR: Monetary Policy Report

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