

Canada Watch

BoC on pause in March, but with the finger on the trigger

Key takeaways

- The BoC remained on hold with its policy rate at 4.50% as widely expected. It kept its QT policy unchanged.
- The BoC repeated that it expects to be on hold to assess the impact of higher rates, but that it is ready to hike if needed.
- We expect the BoC to remain on hold for the rest of the year. We see risks to the upside mostly from Fed hikes.

BoC on hold with the policy rate at 4.50%

The Bank of Canada (BoC) [kept its policy rate target at 4.50% as widely expected](#) (E. 4.50%, BofA 4.50%) on March 8. The BoC kept the same forward guidance pointing to an extended pause, with the central bank ready to hike further if needed. Quantitative tightening (QT) continues unchanged.

BoC with the finger on the trigger

The BoC seems to be comfortable on pause as economic developments have been in line with the outlook on January's Monetary Policy Report. But the BoC is ready to resume hikes if needed, as it continues to say: "Governing Council will continue to assess economic developments and the impact of past interest rate increases, and is prepared to increase the policy rate further if needed to return inflation to the 2% target." We believe that domestic data is unlikely to turn enough to make the BoC hike again. But more Fed hikes could do the trick, especially if there is more downside pressure on CAD.

We expect the BoC to be on hold for the rest of the year

We expect the BoC to be on hold with the policy rate at 4.50% for the rest of the year, as the economy and inflation continue to decelerate. But we see upside risks to the policy rate while core inflation remains high, and the US Fed keeps hiking. We cannot discard a higher policy rate in the following months. Canada does not seem to need more hikes to bring inflation to the target, but the BoC may be forced to hike if the gap in policy rates with the Fed starts to cause major currency weakness. Once core inflation is clearly trending down and the Fed stops hiking, the balance of risks for the policy rate will switch to the downside. We do expect cuts in 2024.

CAD: BoC – Fed difference to weigh on CAD near-term

The BoC has decided to keep the same forward guidance as before. CAD slightly weakened due to lack of new hawkish language in the statement. Considering this week's hawkish communication from Fed Chairman Powell ([Federal Reserve Watch: 07 March 2023](#)), market pricing for the terminal federal funds rate has increased. For now, more Fed rate hikes priced-in amid a BoC on hold is likely to further weigh on CAD in the near-term. But over the medium-term, we maintain a bullish CAD view as we believe the CAD should eventually appreciate once the US reaches the end of the rate hike cycle.

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