

Monetary Policy Recommendation

BANK OF CANADA GOVERNOR'S CHALLENGE

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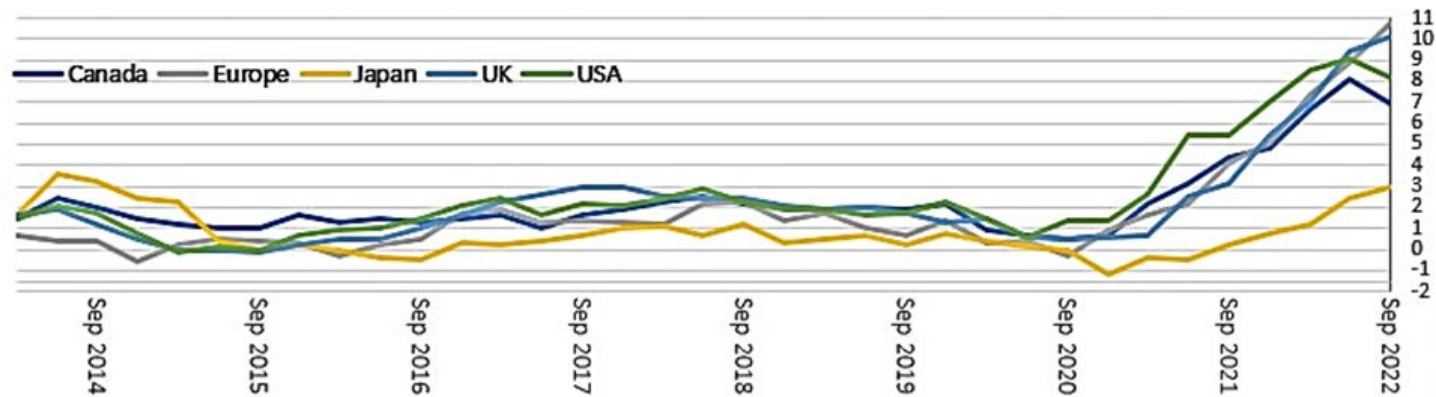
Agenda

- Overview of the Global Economy
- Overview of the Canadian Economy
- Inflation Forecast
- Risks to the Inflation Outlook
- Our Policy Recommendation

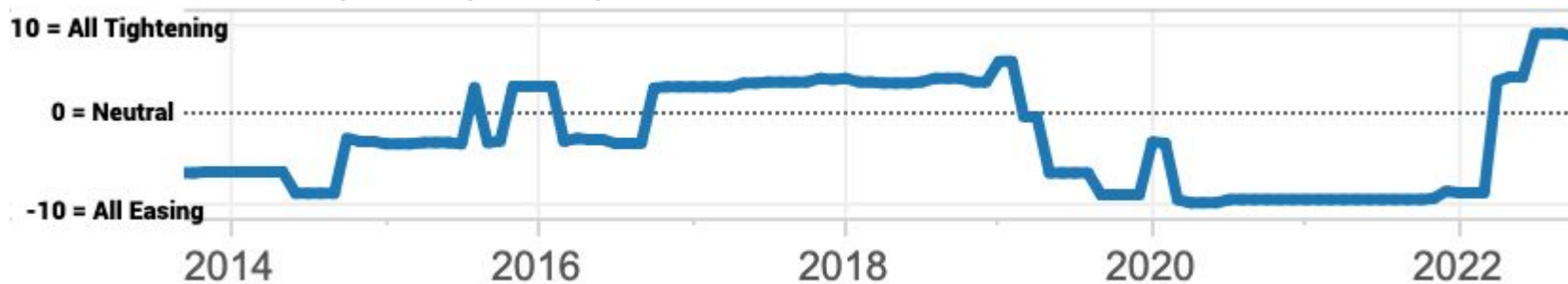
BANK OF CANADA
CANADA'S CENTRAL BANK

Tighter Global Monetary Policy from High Global Inflation

Inflation Rates across Countries (%)

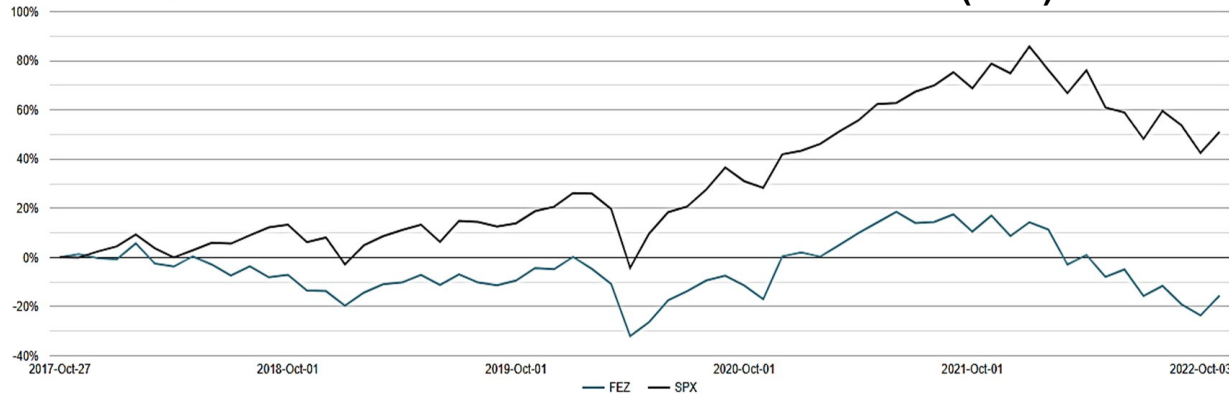


Index of Global Easing (-) / Tightening (+)



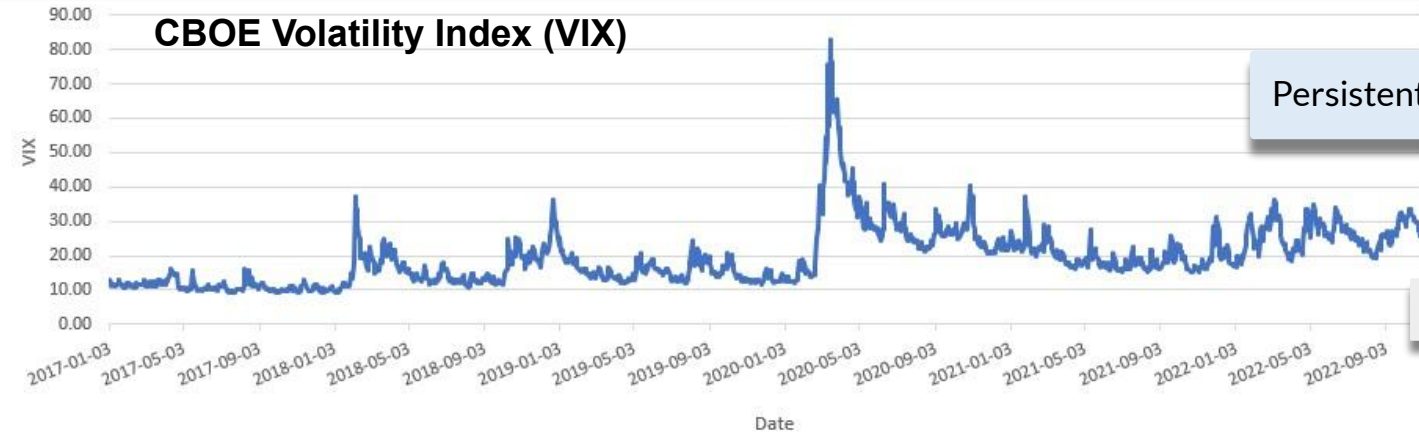
Continued Decline in Global Financial Markets

5-Year Performance SPDR EURO STOXX 50 ETF (FEZ) and S&P 500 Index (SPX)



Declined performance in both indices

CBOE Volatility Index (VIX)

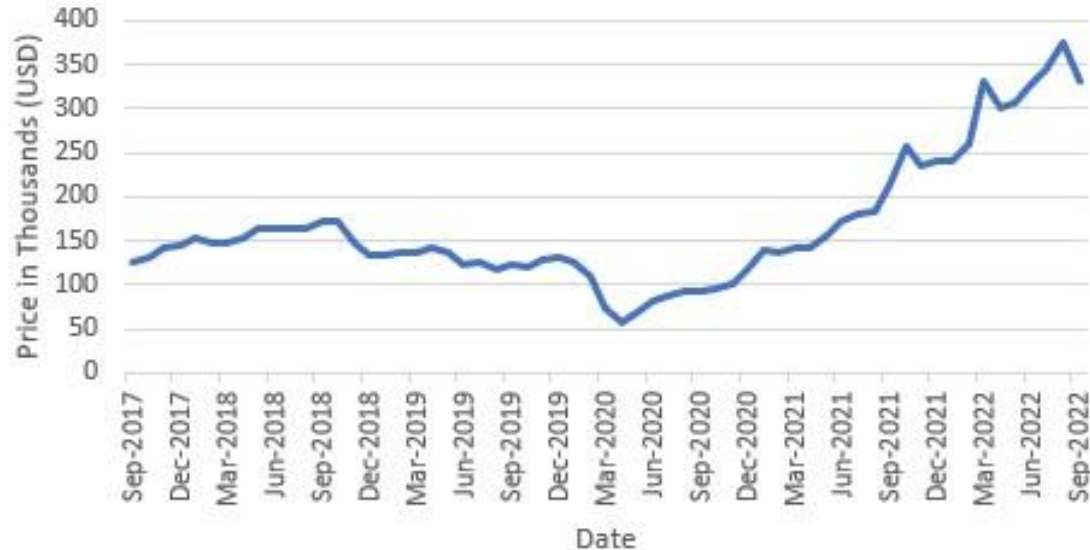


Persistently high volatility expectations

Sources: Aiolut, FRED Database

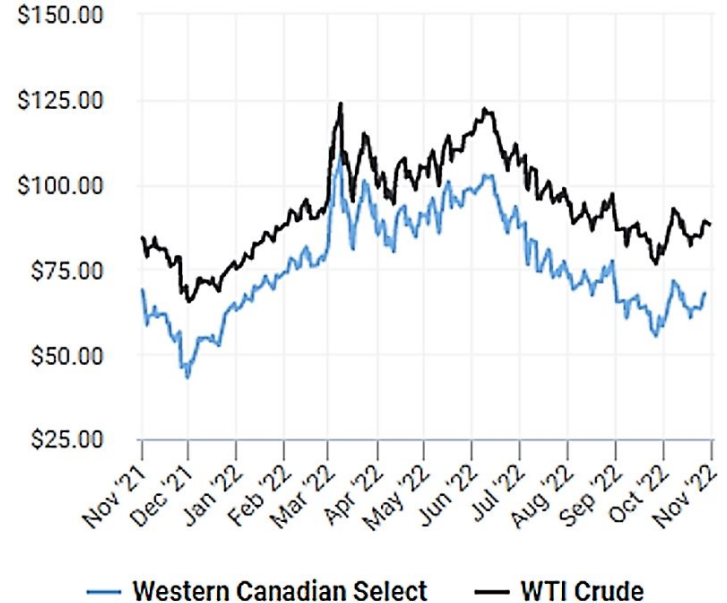
Global Energy Prices Still High Despite Passed Peak Levels

Global Price of Energy Index



High energy prices delivering lower global economic output

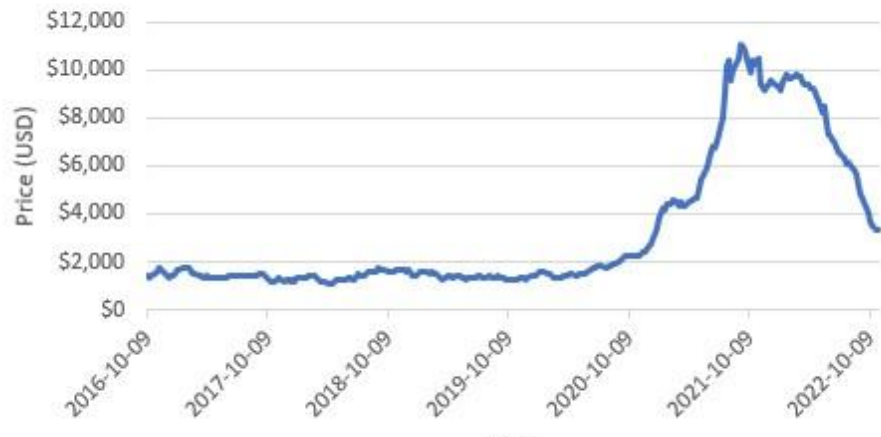
WTI Crude and WCS Prices



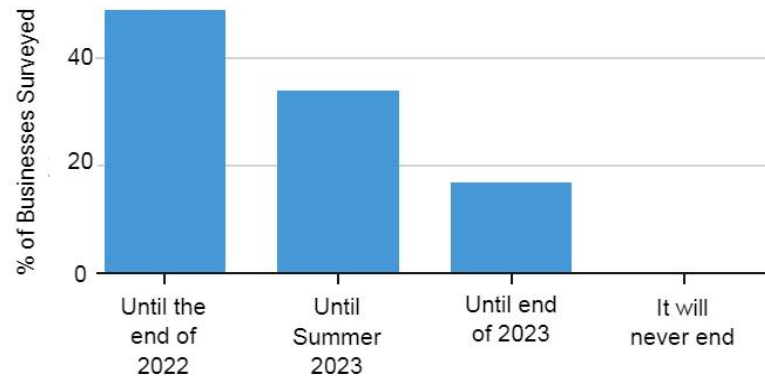
WTI-WCS gap wide despite high crude oil prices

Global Supply Pressures Show Easing amid Geopolitical Risk backdrop

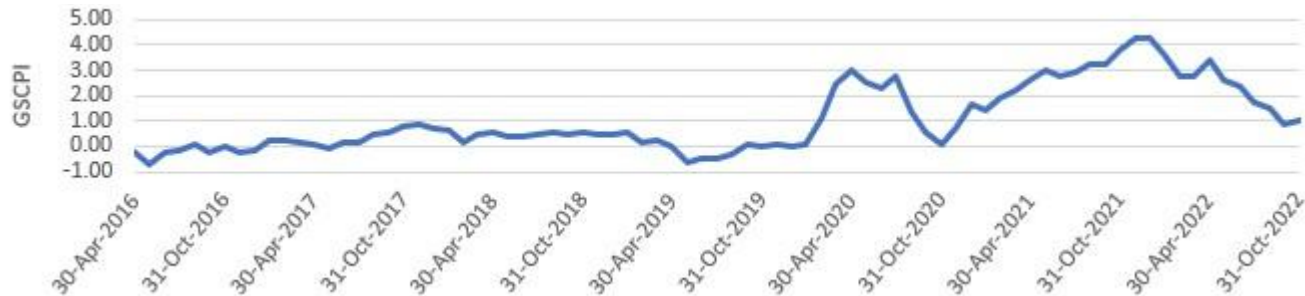
Freightos Mid Price



SAP Survey: Business Supply Chain Pressures Expectations



Global Supply Chain Pressure Index (GSCPI)



Geopolitical challenges top of mind for US businesses towards supply chain expectations

The Canadian Dollar is Depreciating Against the US Dollar

CAD to USD Exchange Rate



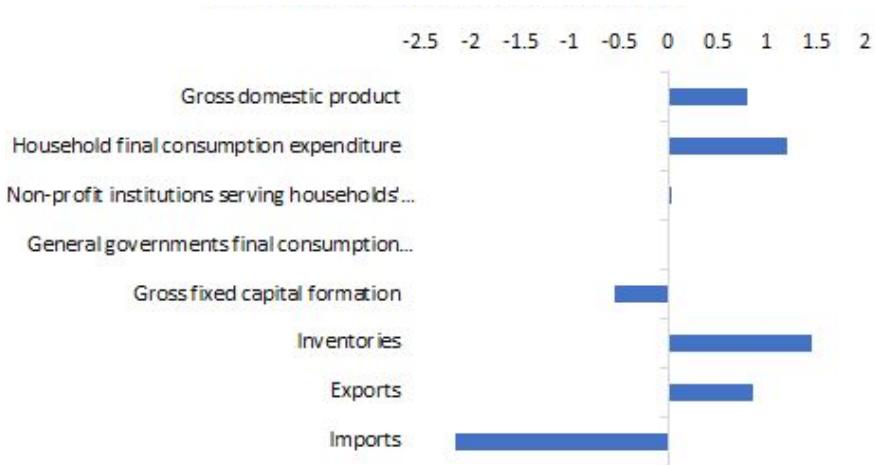
Merchandise Trade with the United States



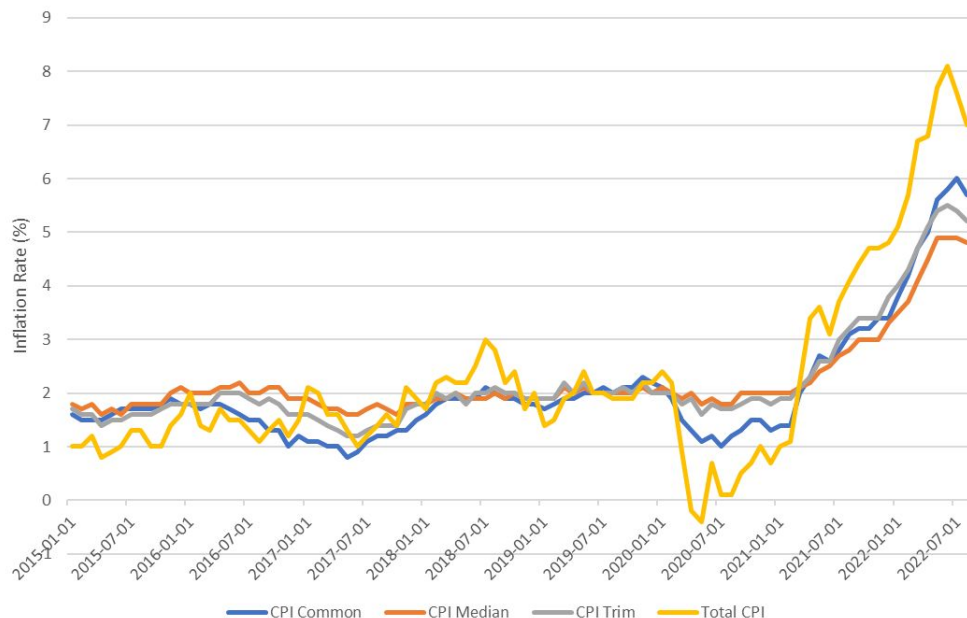
Sources: Bank of Canada, Statistics Canada

Canadian Economy: Inflation is Declining, But Remains Elevated

Contributions to Canadian Real GDP Growth

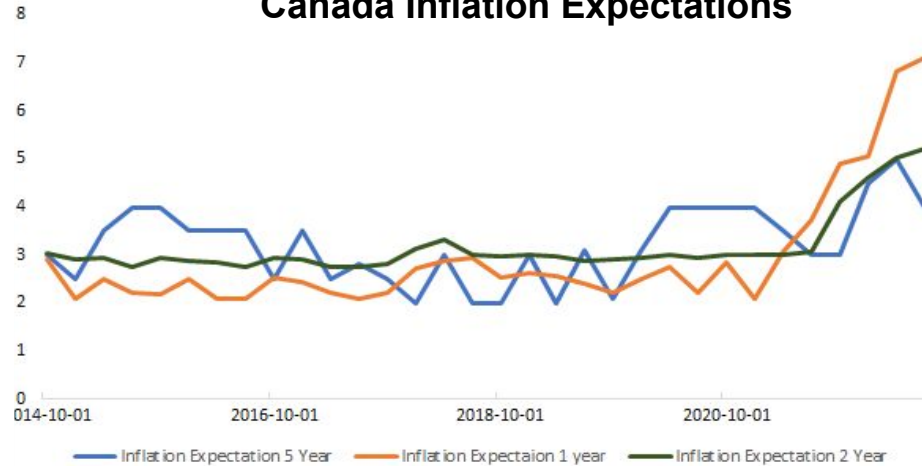


Canada Inflation Rate (by various measures)



Slowdown in the Canadian Housing Market

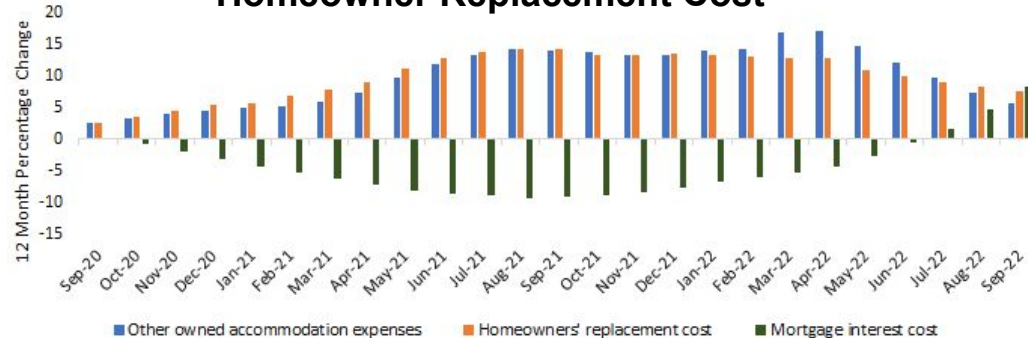
Canada Inflation Expectations



Housing Price Index (% Change)



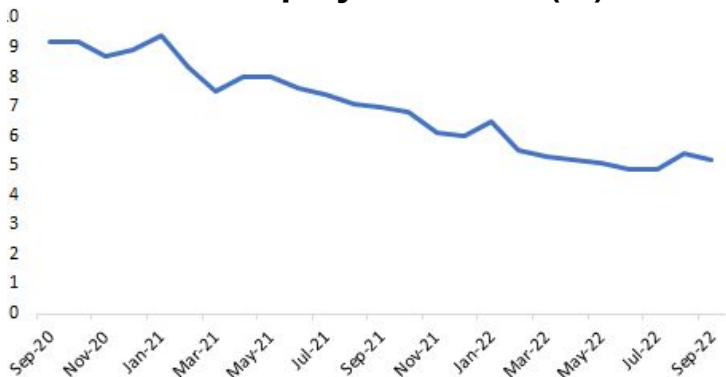
Homeowner Replacement Cost



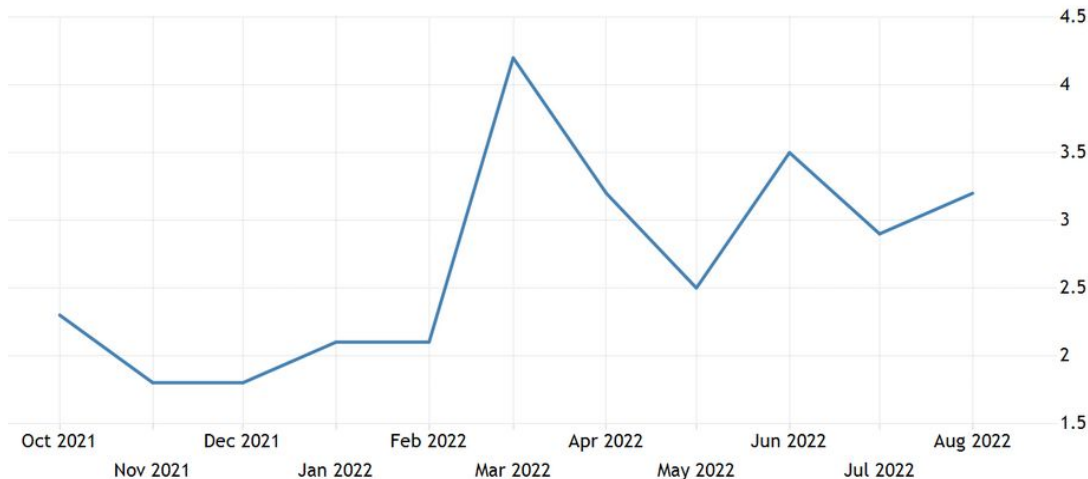
Sources: Statistics Canada, Bank of Canada Canadian Survey of Consumer Expectations, Canadian Real Estate Association

The Canadian Labour Market Remains Tight

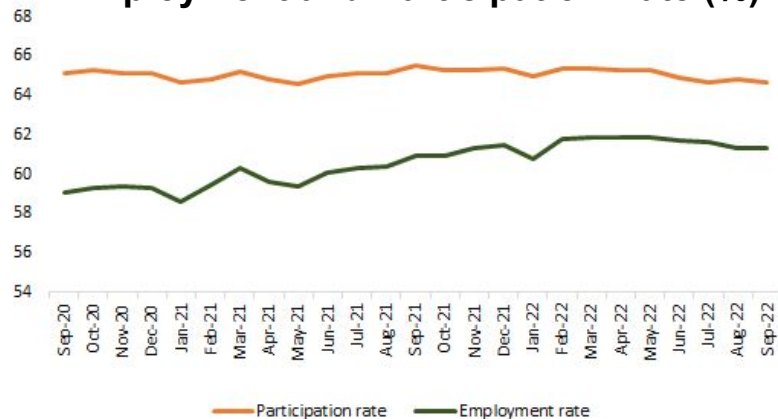
Unemployment Rate (%)



Wage Growth Rate (%)



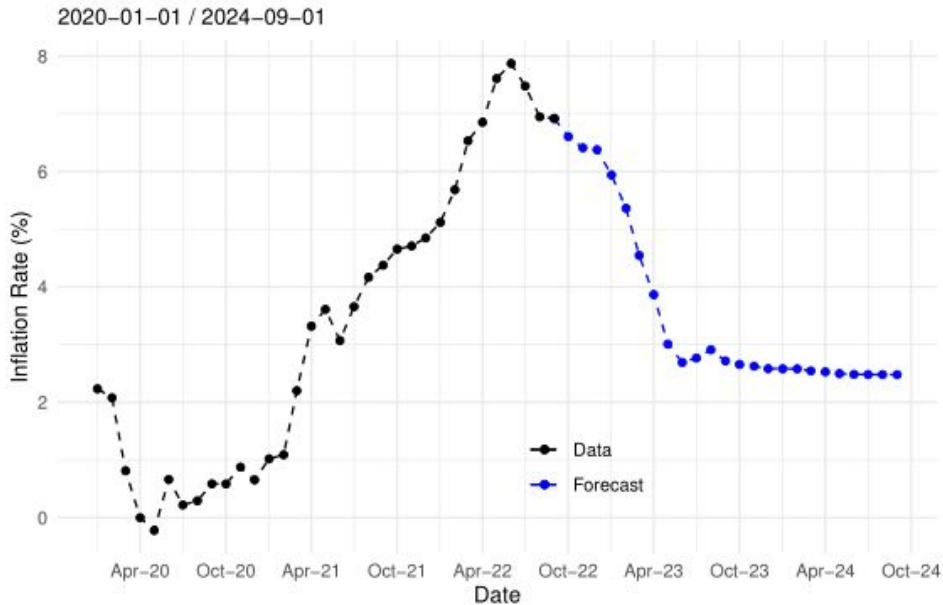
Employment and Participation Rate (%)



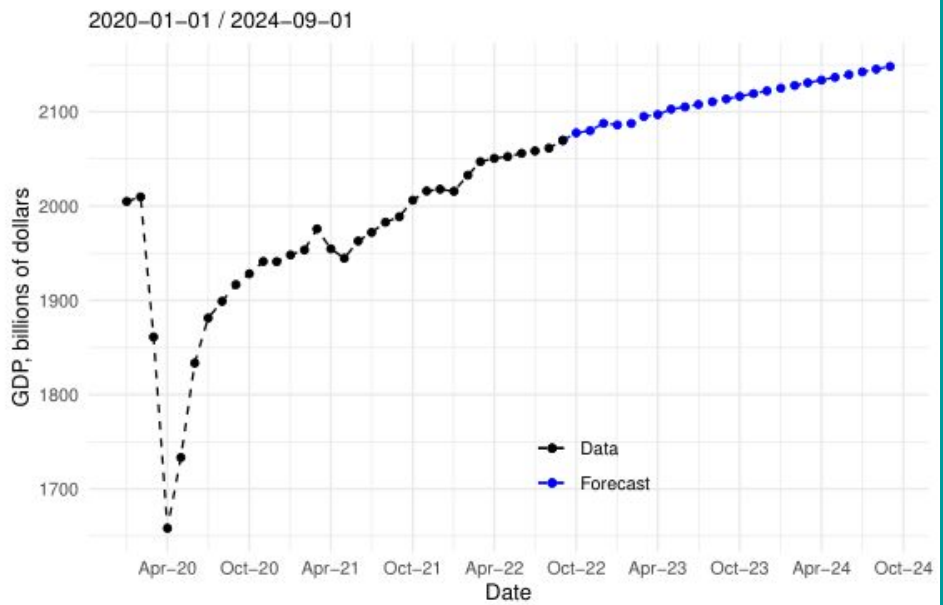
Sources: Statistics Canada, Bank of Canada Canadian Survey of Consumer Expectations

VAR(1) forecast: Inflation to Stabilize within 1%-3%, and Output to Grow, by 2023

Canadian Inflation Rate Forecast



Canadian GDP Forecast



Exogenous variables in model: Federal Funds Rate, Bank of Canada Target Rate.
Endogenous variables in model: GDP (U.S. and Canada), Unemployment rate (U.S. and Canada), and CPI (U.S. and Canada)

Sources: Statistics Canada, Federal Reserve Economic Data, IHS Markit, and model calculations.

Risks to the Inflation Forecast are Mixed

Inflationary Risks:

1. High entrenched long-run inflation expectations domestically
2. Geopolitical tensions leading to further global supply chain disruptions
3. Foreign and domestic fiscal policy stimulus

Deflationary Risks:

1. Household indebtedness accelerating domestic housing market decline faster than anticipated
2. Global economic decline deeper than anticipated



Monetary Policy Recommendation

We recommend the Bank of Canada
hike the target overnight interest rate
by 25 basis points.

In addition, we recommend:

1. Continue Quantitative Tightening
2. Keep communicating policy rationale and outlook

Monetary Policy Recommendation

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APPENDIX 1

Hang Seng Mainland Properties Index



Source: Bloomberg