ANALYSIS OF CORRA FUTURES MARKET MOVEMENTS

Meeting: 10 April 2024

INTERNATIONAL ECONOMY

- U.S. economy was outperforming forecasts due to a tight labor market, strong wage growth, and rising equities.

CANADIAN ECONOMY & INFLATION

- Inflation stood at 2.8% in February, projected to remain around 3% in the first half of 2024 before declining below 2.5% in late 2024.
- Shelter inflation remained high, driven by housing demand and rental prices. (because population growth was high, Housing Supply Shortage, Higher Mortgage Rates)
- In 2024, the U.S. economy performed better than expected, Stronger U.S. demand, thus Several Canadian provinces increased their budgets for infrastructure projects, healthcare, and recovering business investment were expected to fuel Canadian growth.

LABOR MARKET TRENDS

- Unemployment rose to 6.1%, slightly above pre-pandemic levels.

MONETARY POLICY & RATE DECISION

- Governing Council held the policy rate at **5**%, waiting for sustained core inflation easing.
- Some members favored rate cuts sooner, while others were cautious, fearing persistent inflation.

FUTURE CONSIDERATIONS

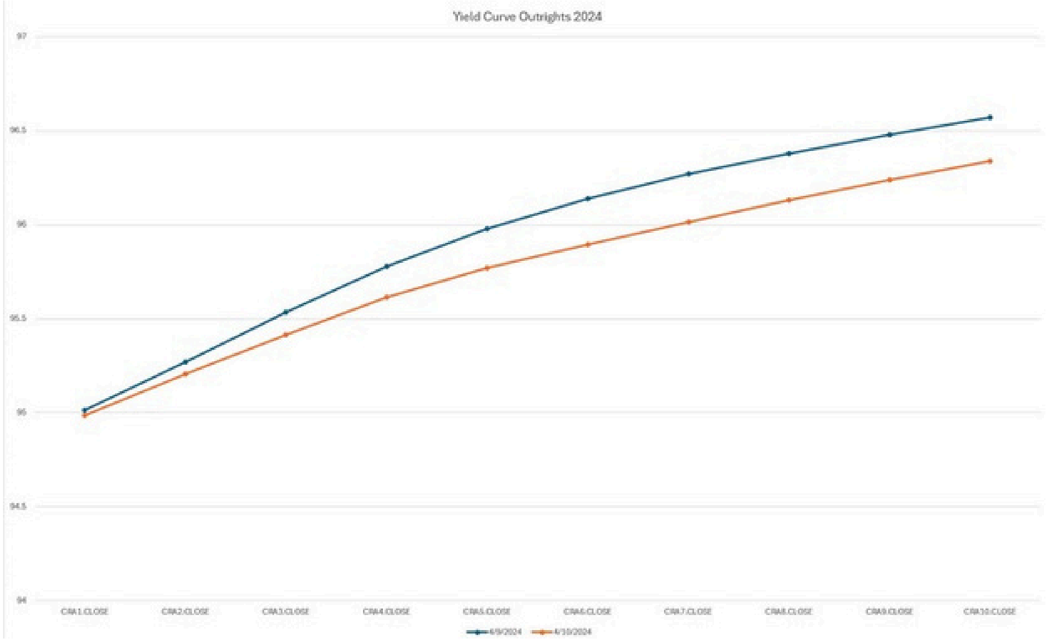
- Population growth uncertainty could impact inflation dynamics.
- The Bank of Canada will reduce the amount of bonds it owns by letting them expire naturally instead of buying new ones.(removes money from the financial system-> Less Liquidity in the Market -> Slower Economic Growth -> Keeps Inflation Under Control) **(Quantitative Tightening)**
- The next rate cut will likely depend on sustained progress in core inflation

10 April 2024

1) INTEREST RATE DECISION: 5.00%(ACTUAL) 5.00%(FORECAST) 5.00%(PREVIOUS) This will not impact the market.

2) US CPI (YOY) (MAR): 3.5%(ACTUAL) 3.4%(FORECAST) 3.2% (PREVIOUS)

If inflation is rising in the U.S., the U.S. central bank may need to increase interest rates to control it. This means that borrowing costs, or the interest on loans, will be higher. In Canada, if U.S. rates go up, it could also impact the Canadian market. People might think that the Bank of Canada will also increase interest rates soon. Therefore, **interest rates could go up (Hawkish Data).**



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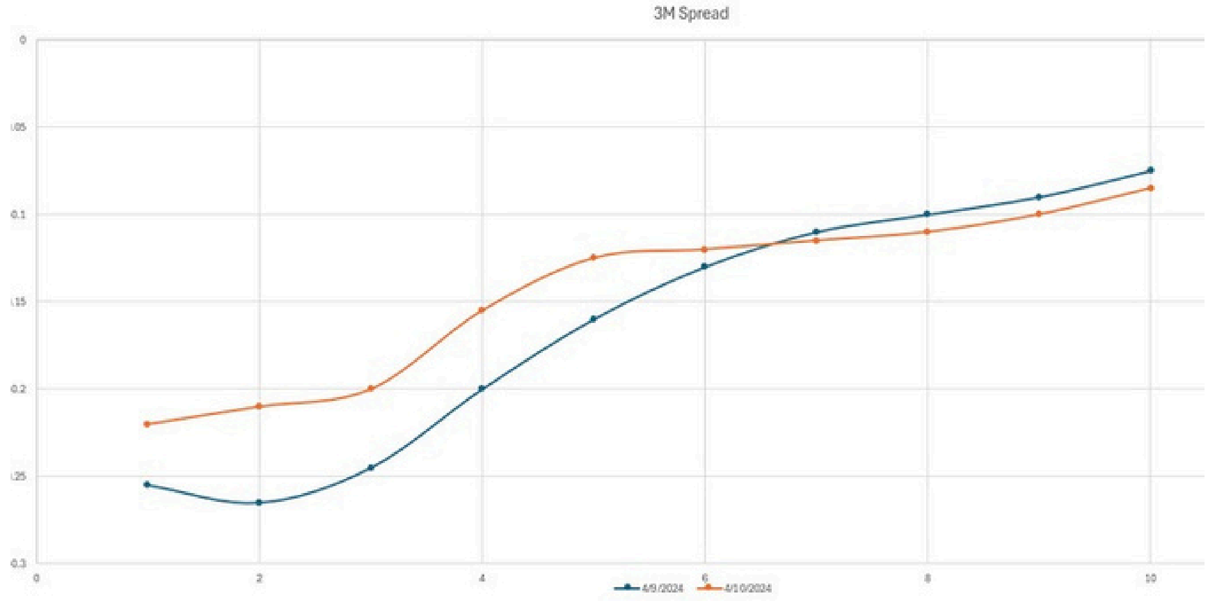

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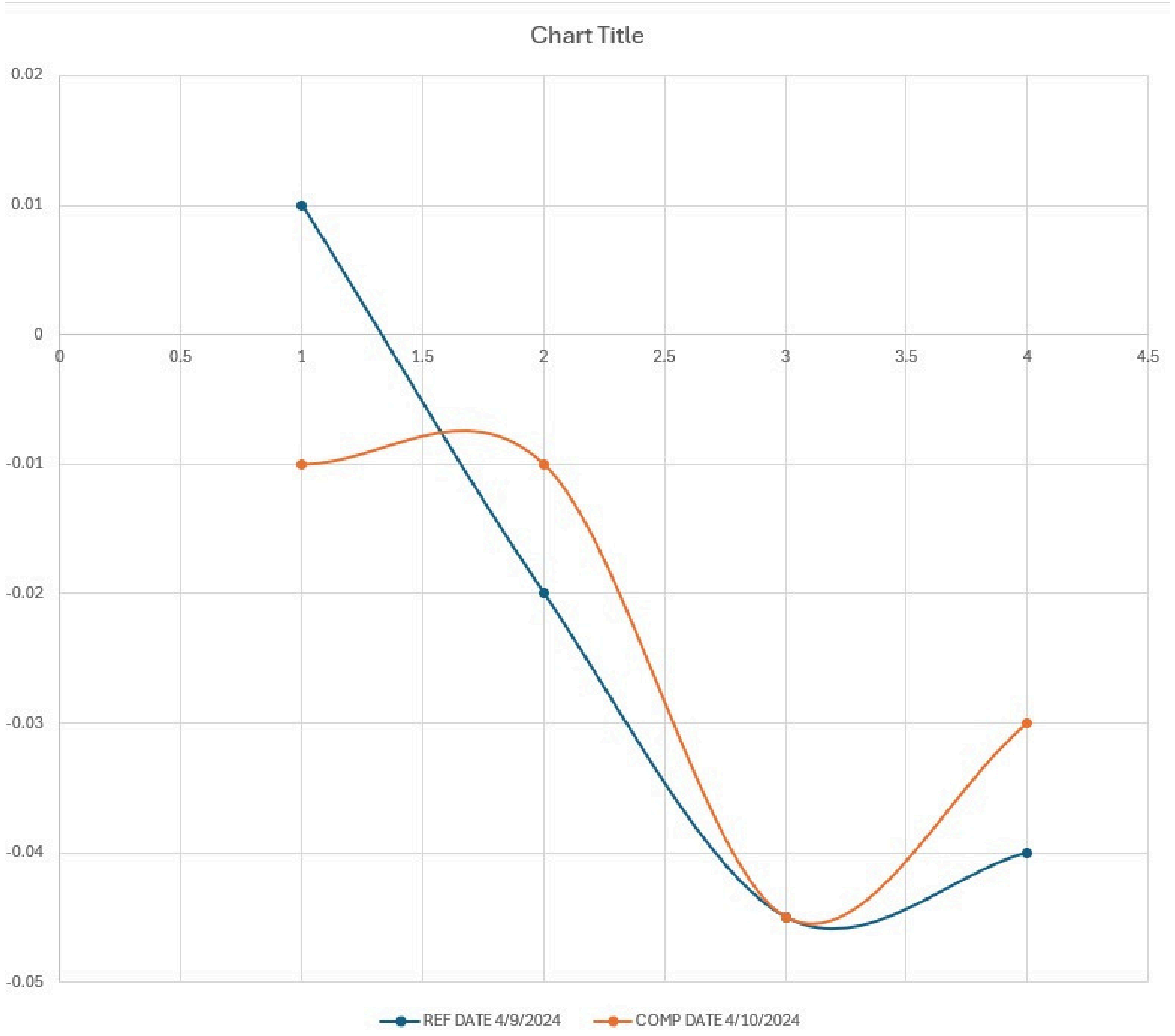

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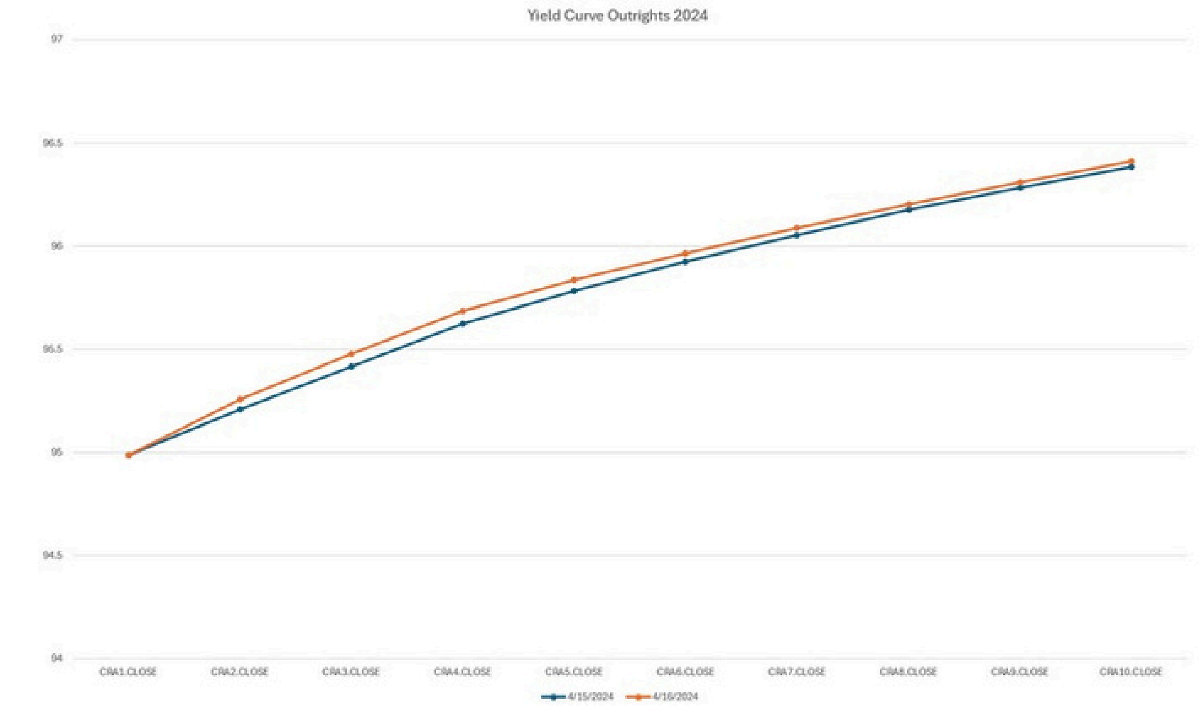
16 April 2024

1) COMMON CPI (YOY) (MAR): 2.9% ACTUAL, 3.1% FORECAST, 3.1% PREVIOUS Inflation got decreased this means that IR will decrease. Thus,



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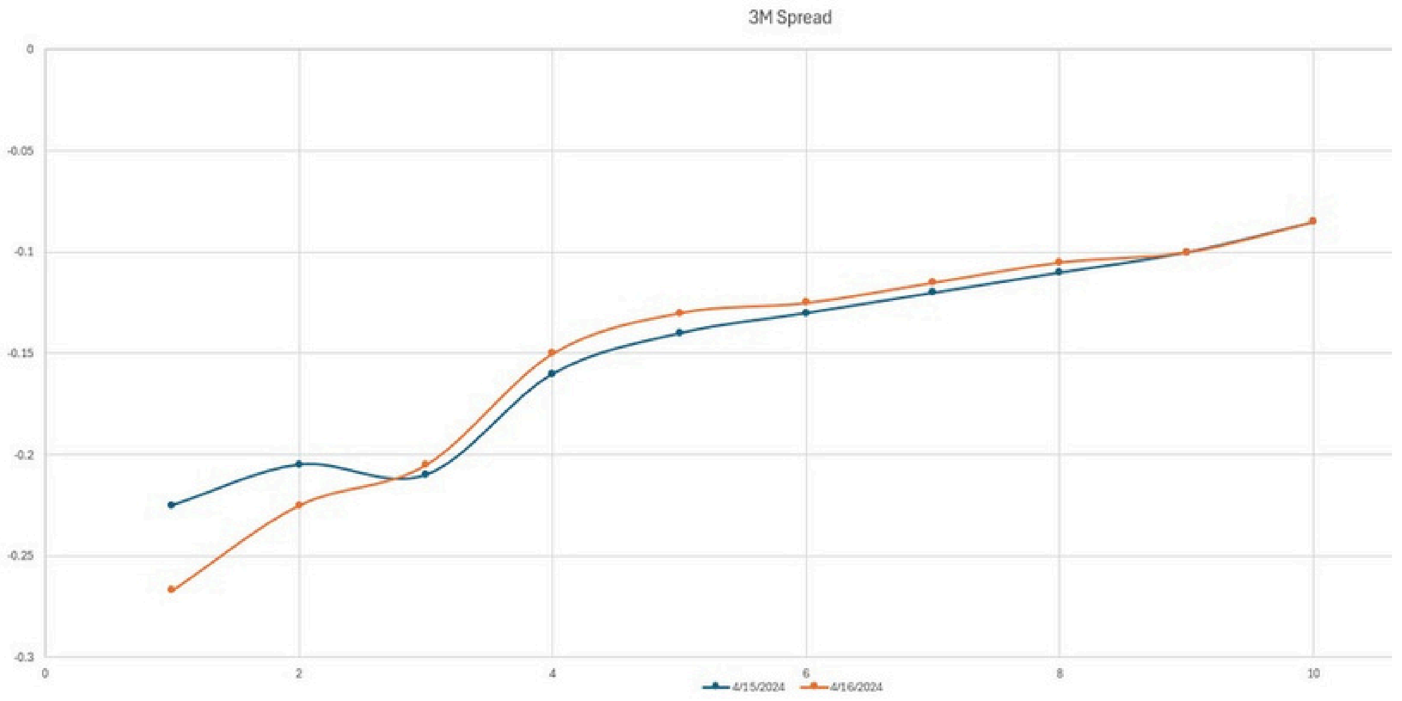

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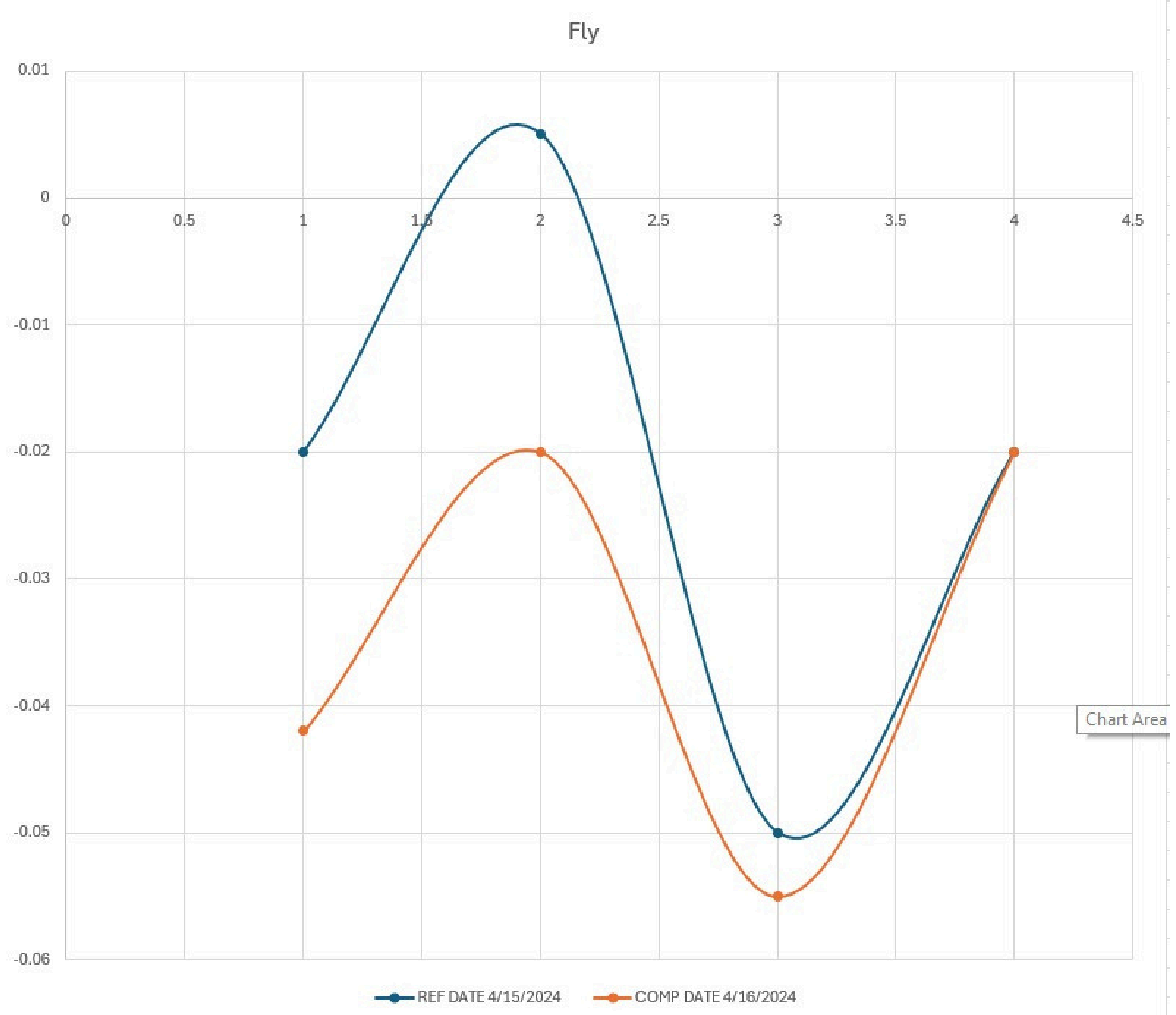
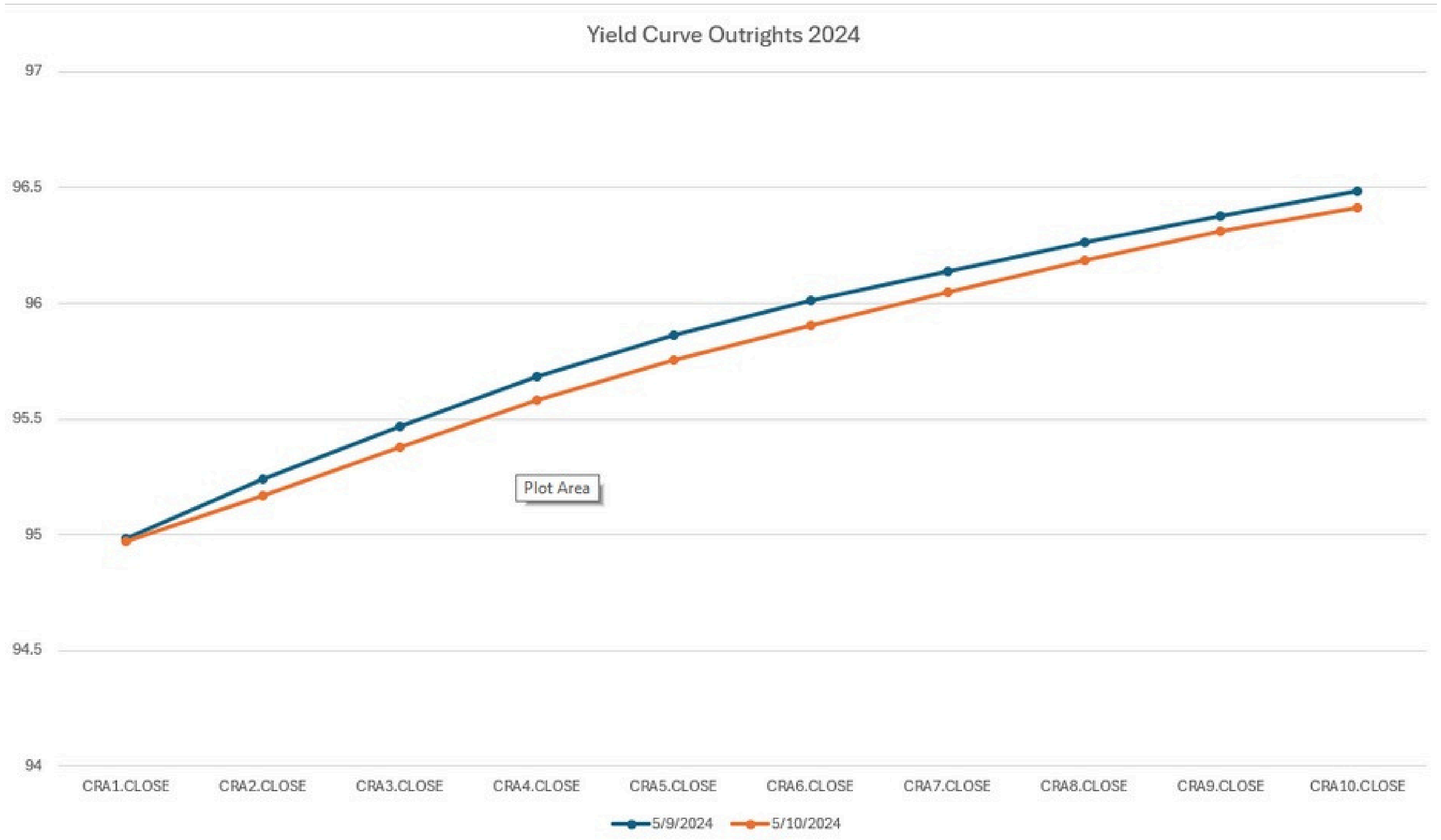


10 May 2024

1) CAD Unemployment Rate (Apr): 6.1% Actual, 6.2% Forecast, 6.1% Previous

Unemployement rate decreses -> economic activities increases -> Consumer spending increases -> Inflation increases ->IR increases (Hawkish Data)



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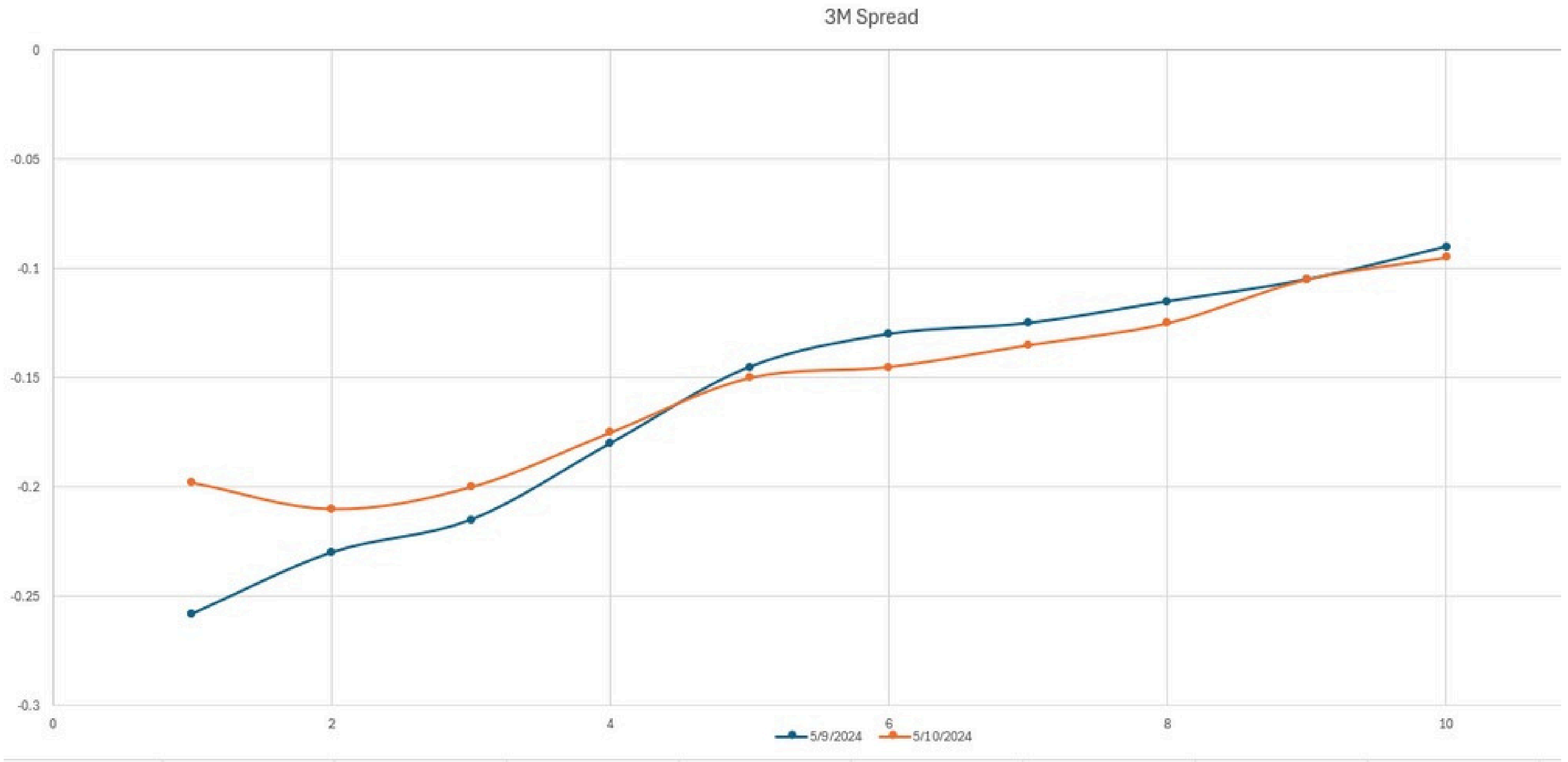

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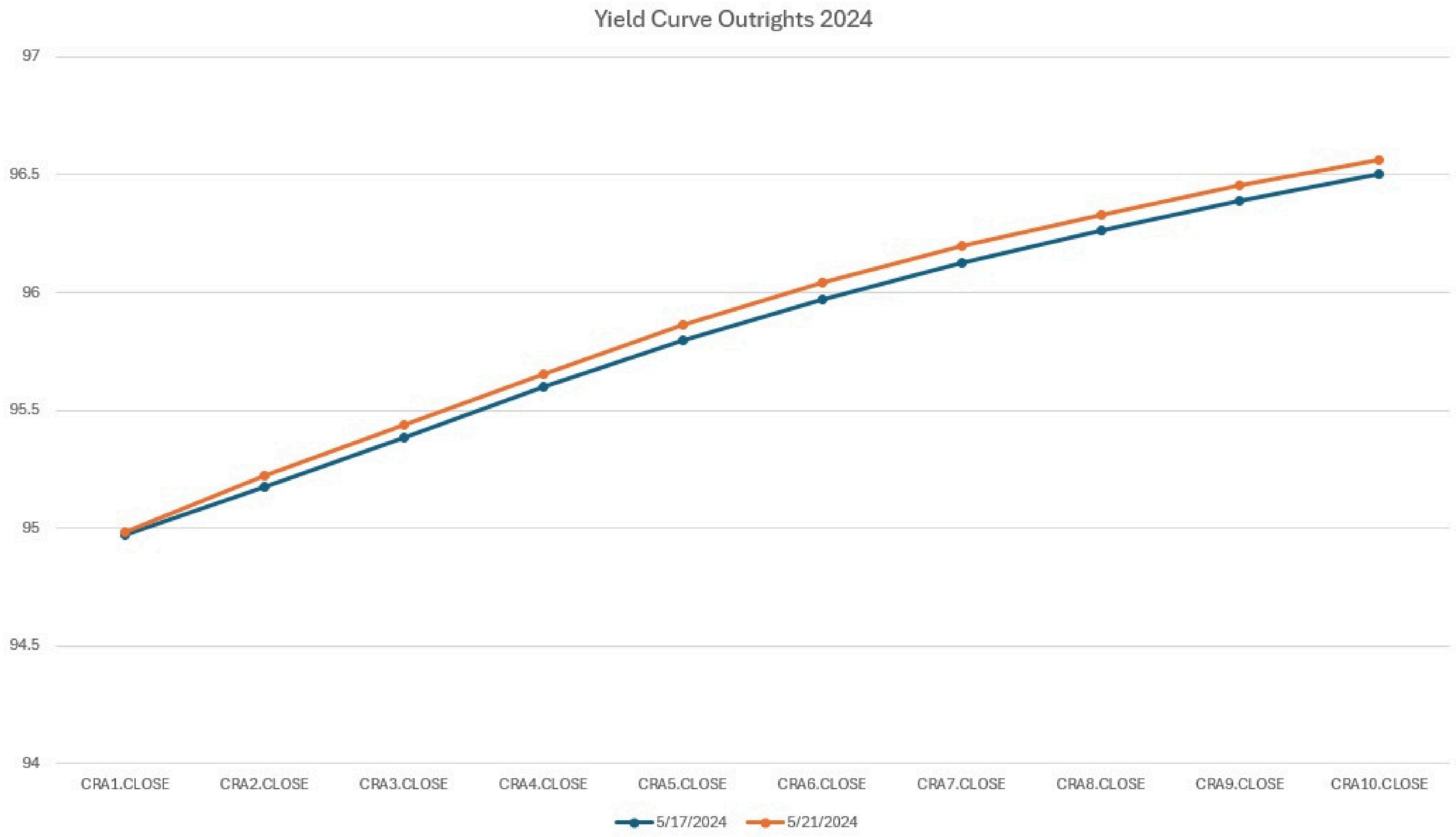
21 May 2024

CPI (YOY) (APR): 2.7%ACTUAL, 2.7%FORECAST, 2.9%PREVIOUS

TRIMMED CPI (YOY) (APR): 2.6% ACTUAL, 2.7% FORECAST, 2.9% PREVIOUS

Inflation got decreased this means that IR will decrease. Thus,



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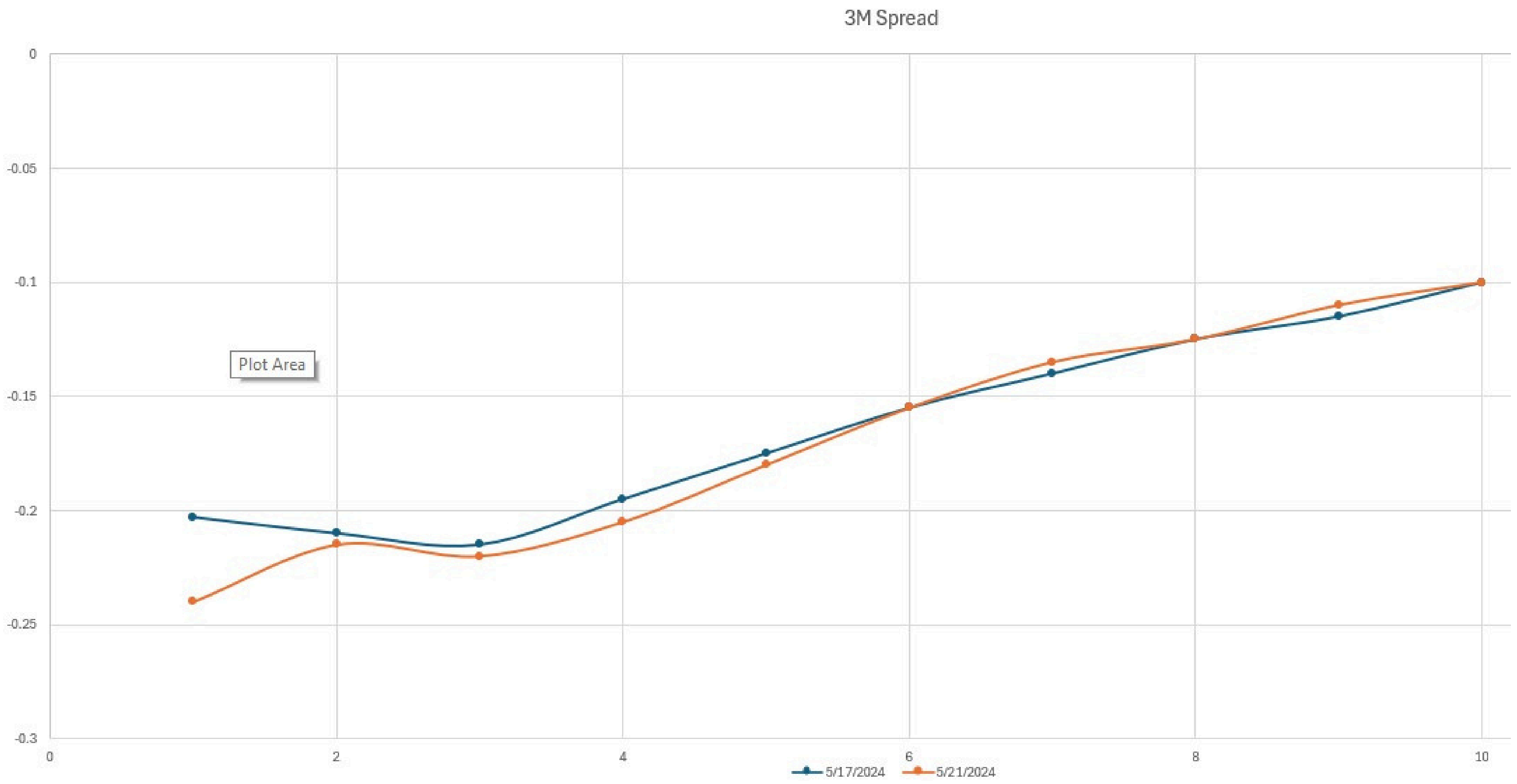

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31 May 2024

CANADA GDP DATA: 1,7% ACTUAL, 2.2 FORECAST, 0.1% PREVIOUS GDP decreases ->economy decreases -> IR decreases (to grow the economy)

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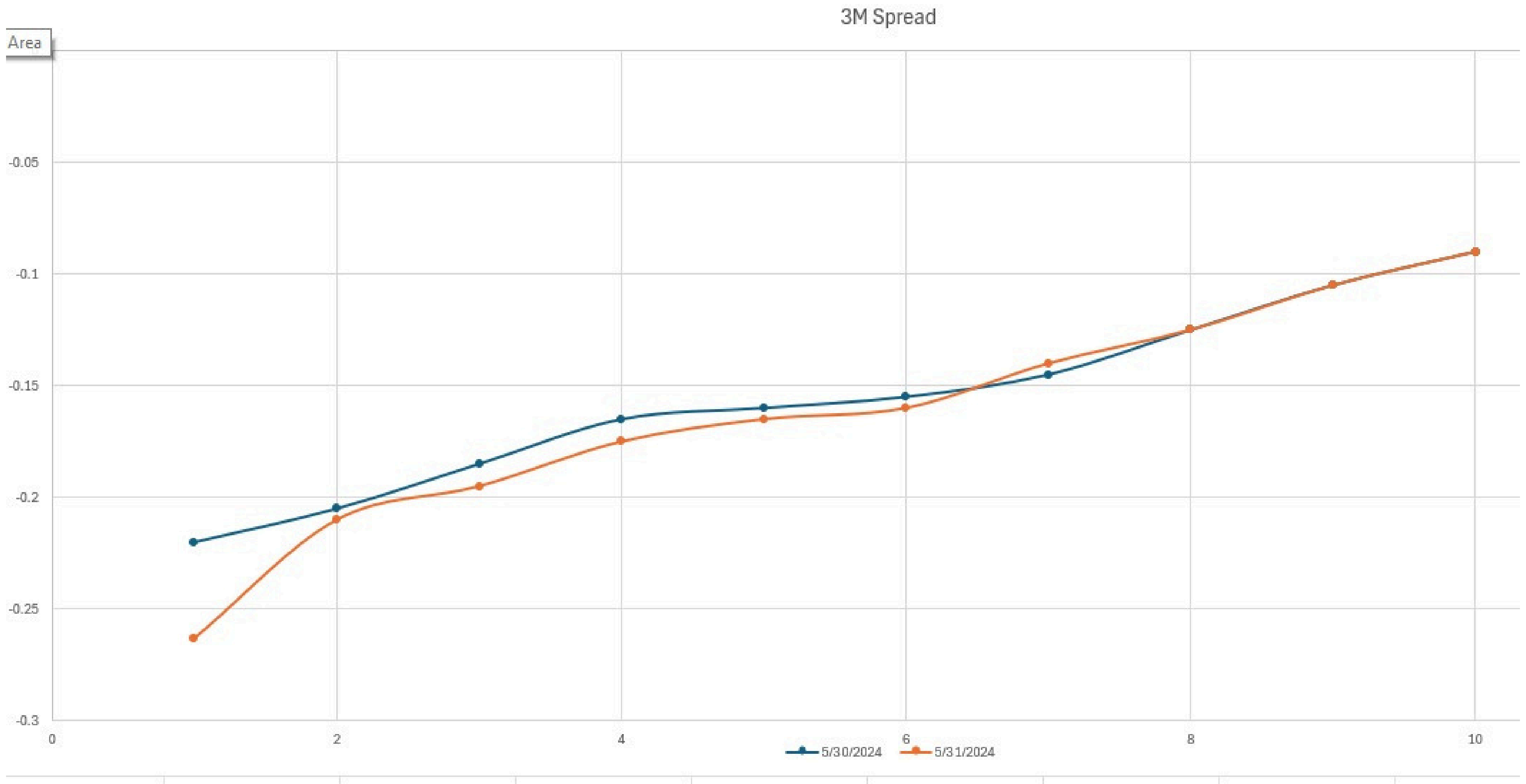

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Meeting: June 5, 2024

INTERNATIONAL ECONOMIC

- U.S. economy weakened due to lower exports and inventory declines, although business investment remained solid.
- Core inflation in the U.S. increased slightly,

CANADIAN ECONOMY

- Canada’s economy grew by 1.7% in Q1 2024, lower than projected in April.
- Domestic spending (final domestic demand) grew by 2.9%
- CPI inflation dropped to 2.7% in April.
- Shelter inflation remained the biggest contributor to CPI, driven by high housing costs.

LABOR MARKET TRENDS

- Canada's job market is cooling down because the number of new jobs being created is not keeping up with the number of people entering the workforce.

CONSIDERATIONS FOR MONETARY POLICY

- The Bank of Canada assessed that inflation was sustainably trending toward the 2% target after four consecutive months of core inflation easing.

POLICY DECISION – FIRST RATE CUT

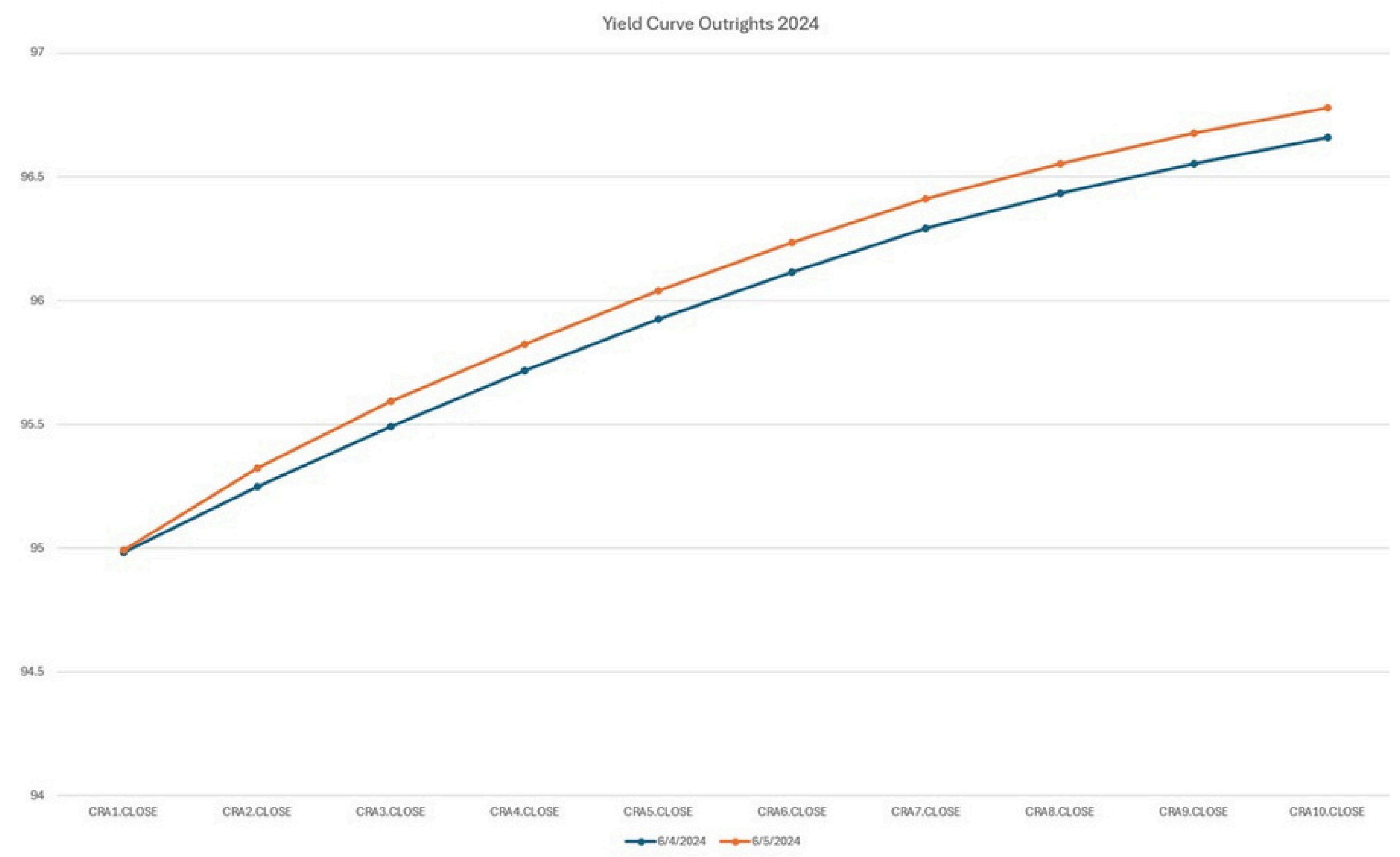
- The Bank of Canada **cut its policy rate by 25 basis points (0.25%) to 4.75%(From 5%),** marking the first rate cut since rate hikes began.
- The Governing Council debated whether to wait for additional inflation data before cutting but decided that four straight months of core inflation easing justified a cut.
- Further rate cuts were possible, but monetary policy easing would be gradual and depend on future inflation trends.

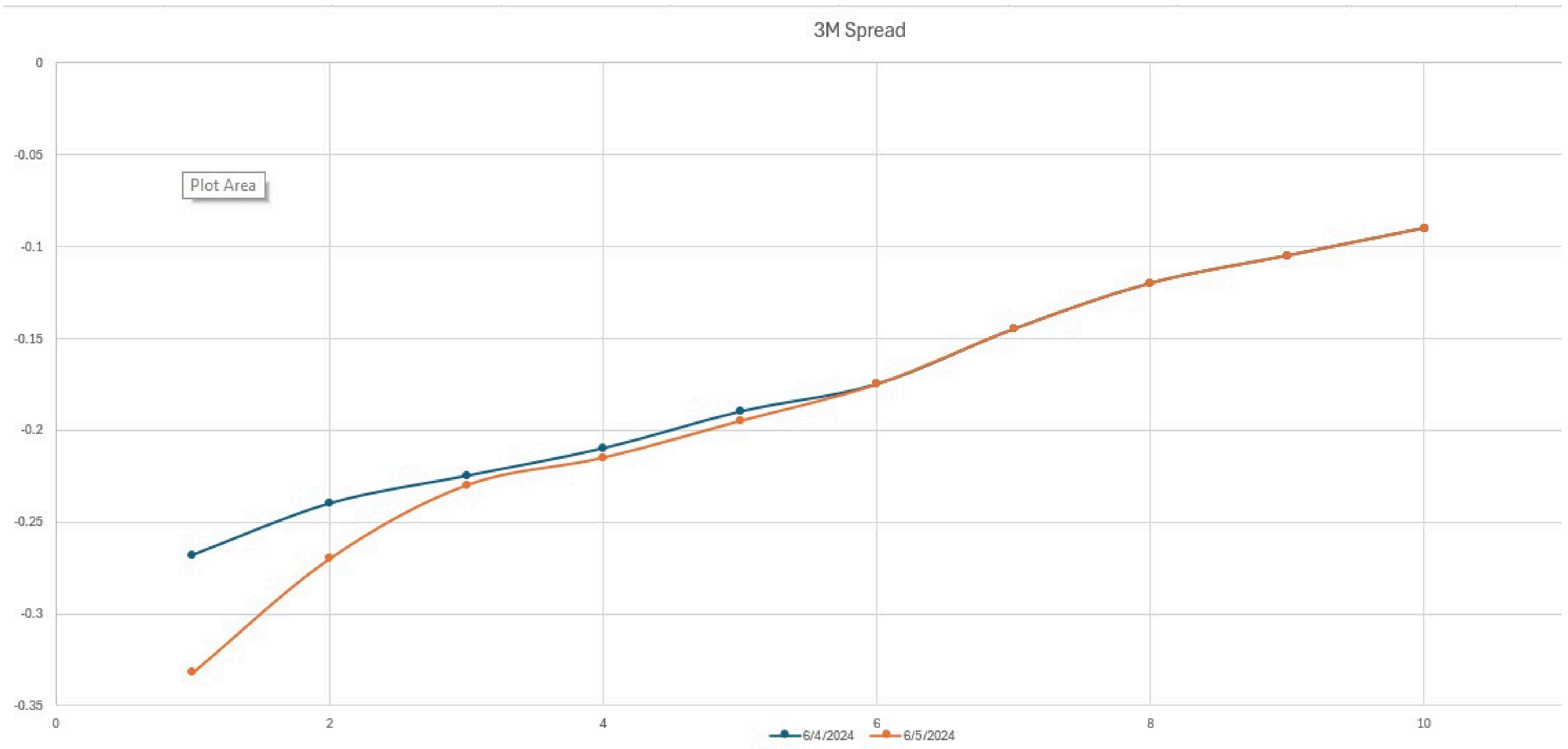
5 JUNE 2024

BOC INTEREST RATE DECISION: 4.75% ACTUAL, 4.75% FORECAST, 5.0% PREVIOUS

LABOR PRODUCTIVITY (QOQ) (Q1) : -0.3% ACTUAL, -0.2% FORECAST, 0.2% PREVIOUS

Inflation decreases -> IR decreases (to grow the economy)





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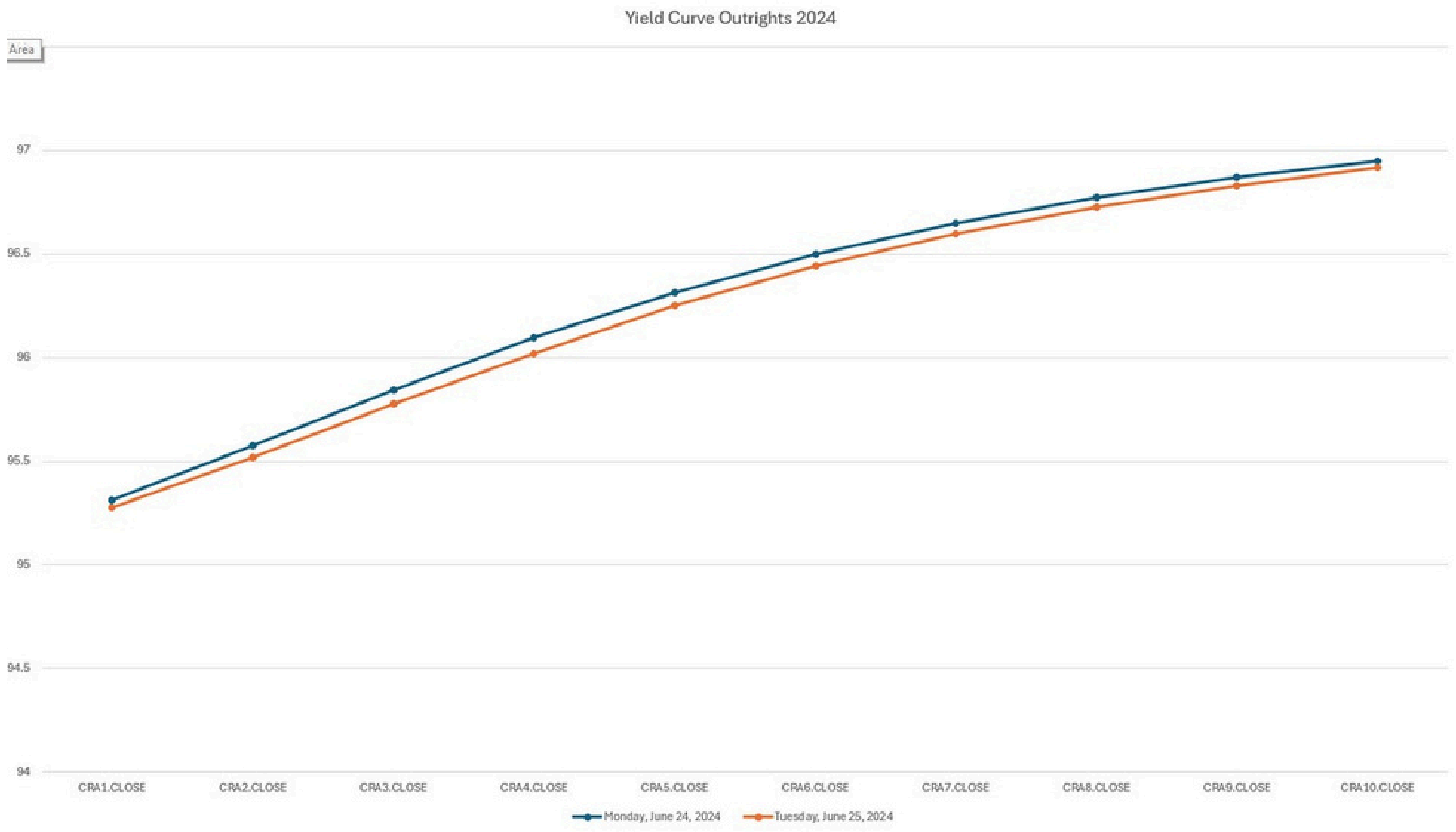
25 June 2024

CORE CPI (MOM) (MAY): 0.6% ACTUAL, 0.2% FORECAST, 0.2% PREVIOUS Inflation Increases-> IR increase



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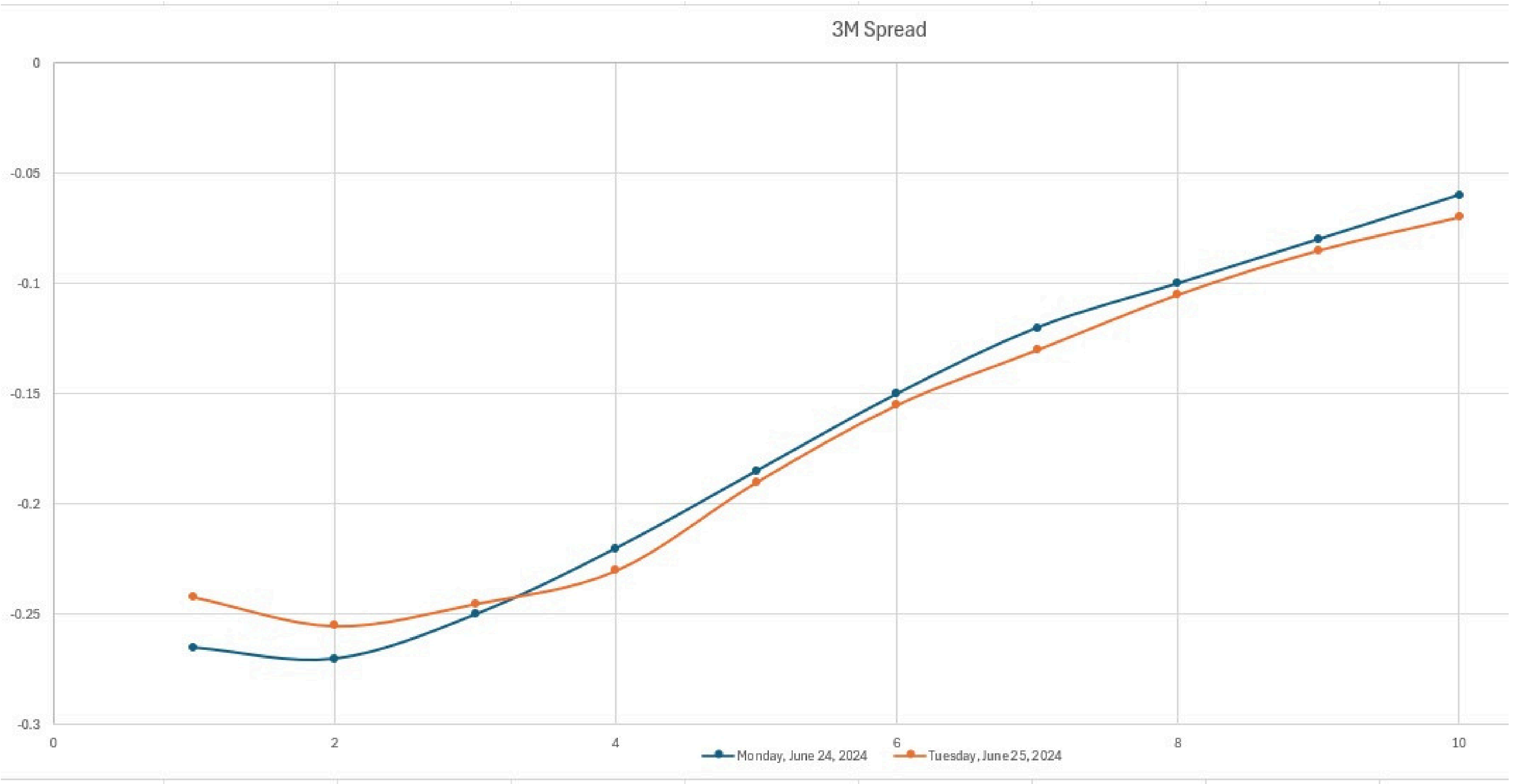

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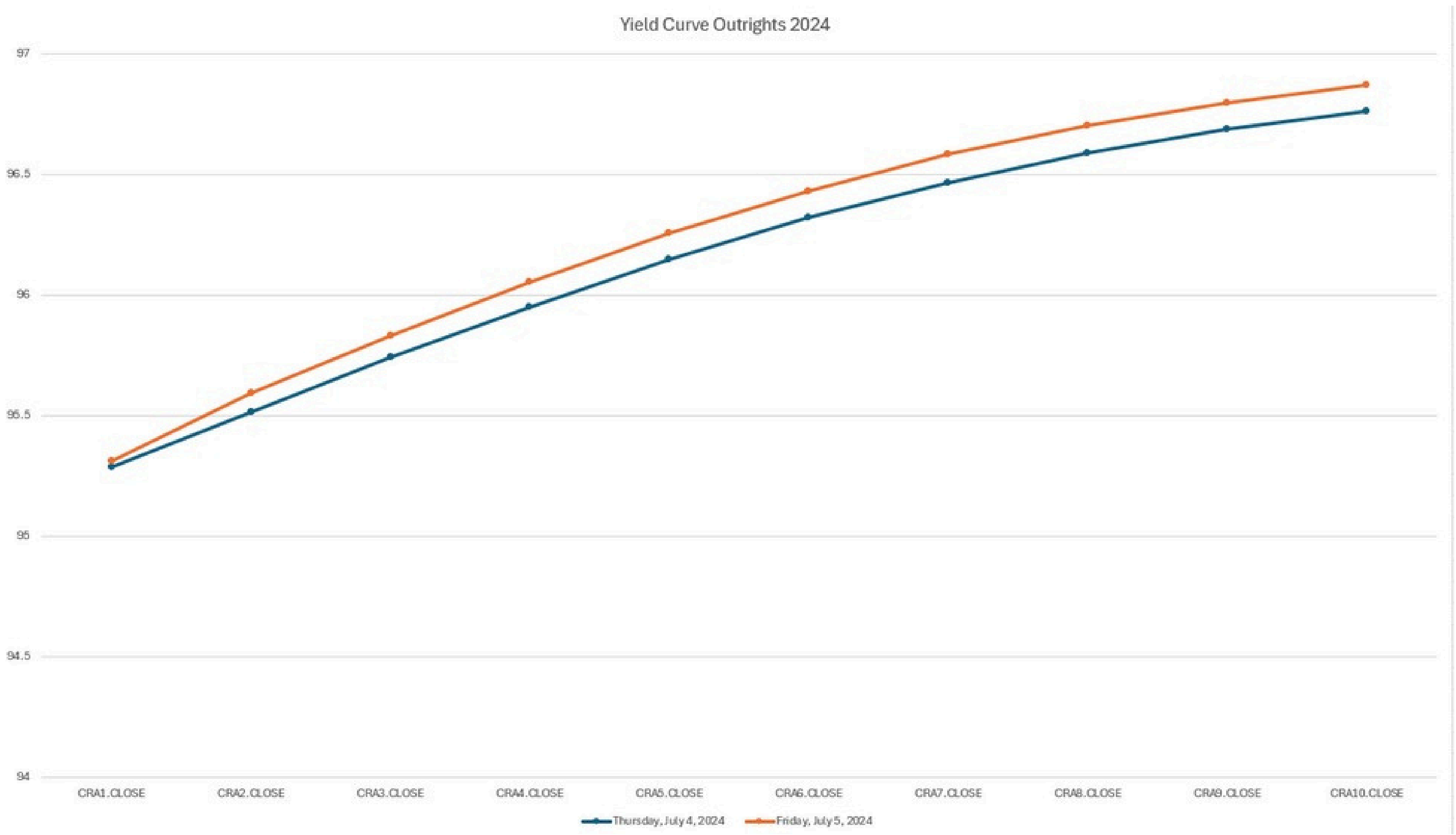
5 JULY 2024

CAD UNEMPLOYMENT RATE (JUN) : 6.4% ACTUAL, 6.3% FORECAST, 6.2% PREVIOUS

US UNEMPLOYMENT RATE (JUN) : 4.1% ACTUAL, 4.0% FORECAST, 4.0% PREVIOUS

Inflation Decreases-> IR Decreases



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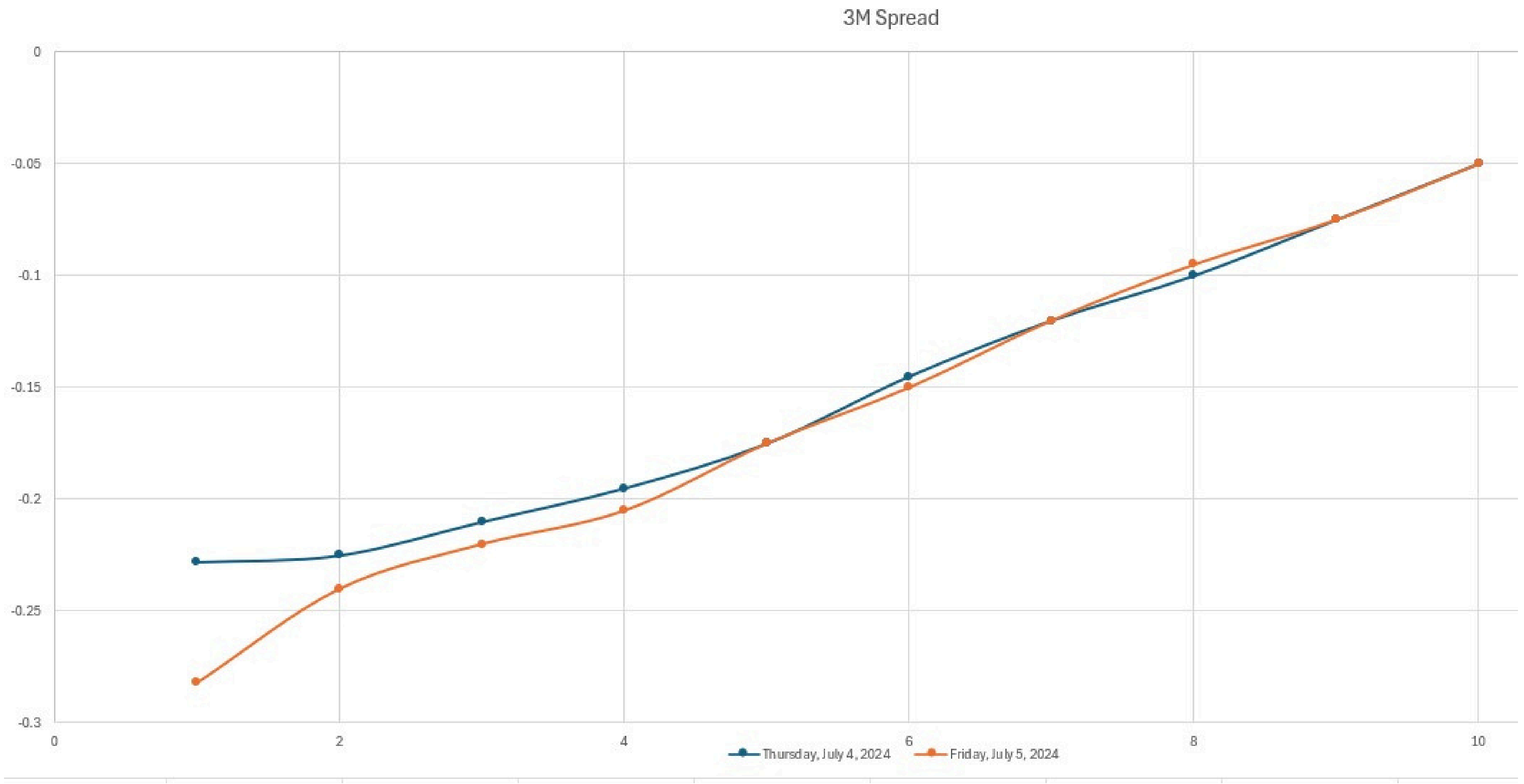

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Meeting: July 24, 2024

INTERNATIONAL ECONOMIC

- U.S. economic growth slowed due to a cooling labor market and weaker consumer spending.
- **Bond yields fell as markets expected the U.S. to start cutting rates.**

CANADIAN ECONOMY

- GDP growth was positive but weak, largely supported by population growth rather than increased productivity.
- On a per-person basis, GDP actually shrank, meaning economic conditions for individuals worsened.

LABOR MARKET TRENDS

- Unemployment increased to 6.4% in June, showing a cooling job market

INFLATION

- CPI inflation dropped to 2.7% in June, staying within the BoC's 1-3% target range since January.
- Shelter costs remained the largest contributor to inflation

POLICY DECISION – FIRST RATE CUT

- The Bank of Canada **cut its policy rate by 25 basis points to 4.5% (from 4.75),** marking its second rate cut of 2024.
  - Inflation had eased consistently for several months.
  - The economy was growing below its potential.

FUTURE CONSIDERATIONS

- **No pre-set rate cut schedule:** The BoC will decide meeting by meeting, depending on inflation trends.
- **Shifting focus to both upside and downside risks:**
  - Previously, the BoC only focused on preventing inflation from staying too high.
  - Now, they are equally concerned about inflation dropping too low.
- The BoC is still letting bonds mature without replacing them, slowly reducing money in the financial system. **(Quantitative Tightening Continues)**

POTENTIAL DOWNSIDE RISKS (PULLING INFLATION LOWER):

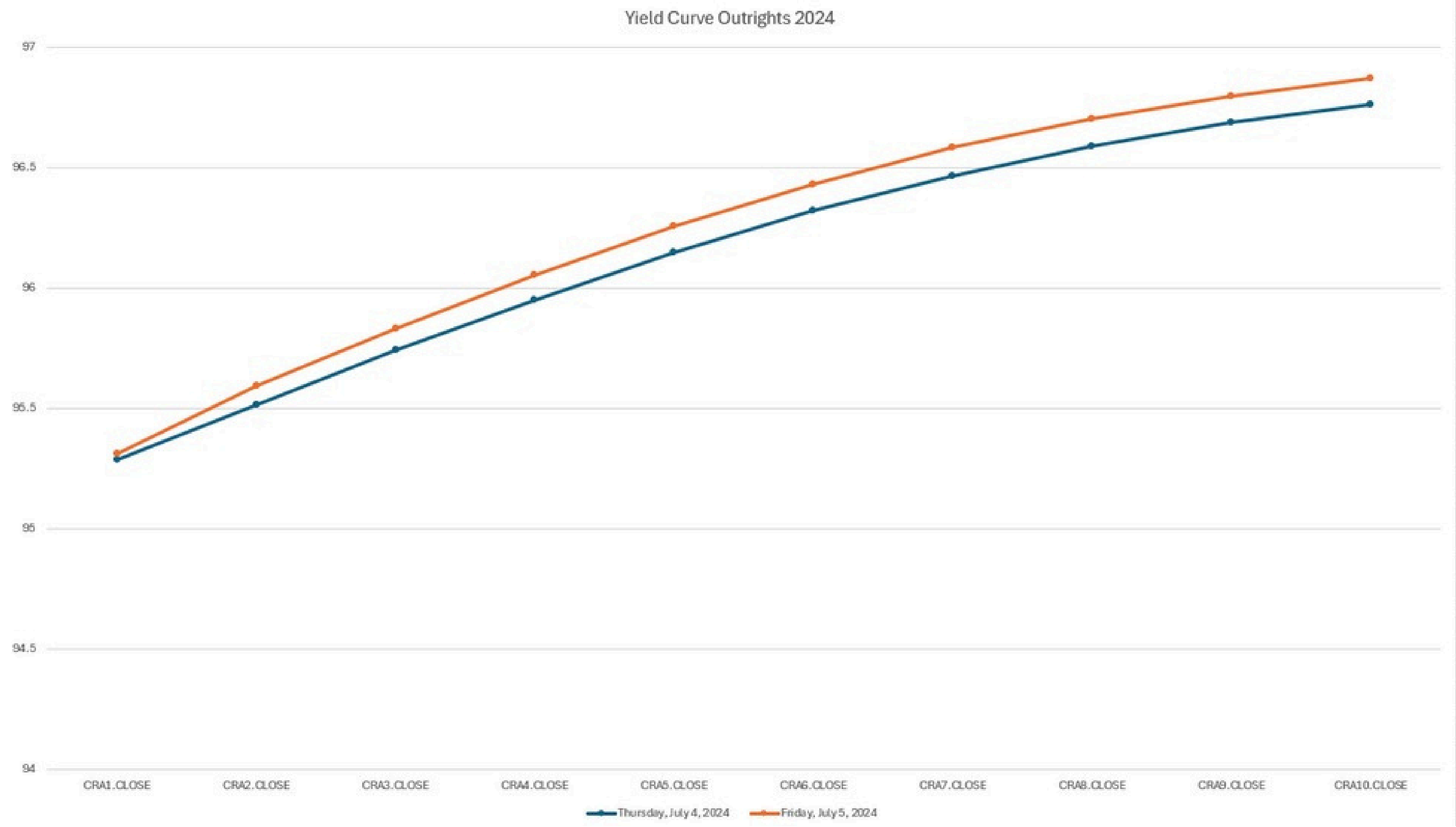
- Weak labor market conditions could slow wage growth further.
- Higher mortgage in 2025 could reduce consumer spending.
- If demand remains weak, businesses might lower prices to attract customers, keeping inflation down.

POTENTIAL UPSIDE RISKS (KEEPING INFLATION HIGH)

- Housing demand could surge again if mortgage rates fall.
- Wage growth remains high in service industries.

24 JULY 2024

BOC INTEREST RATE DECISION: 4.5% ACTUAL, 4.5% FORECAST, 4.75% PREVIOUS IR Decreases



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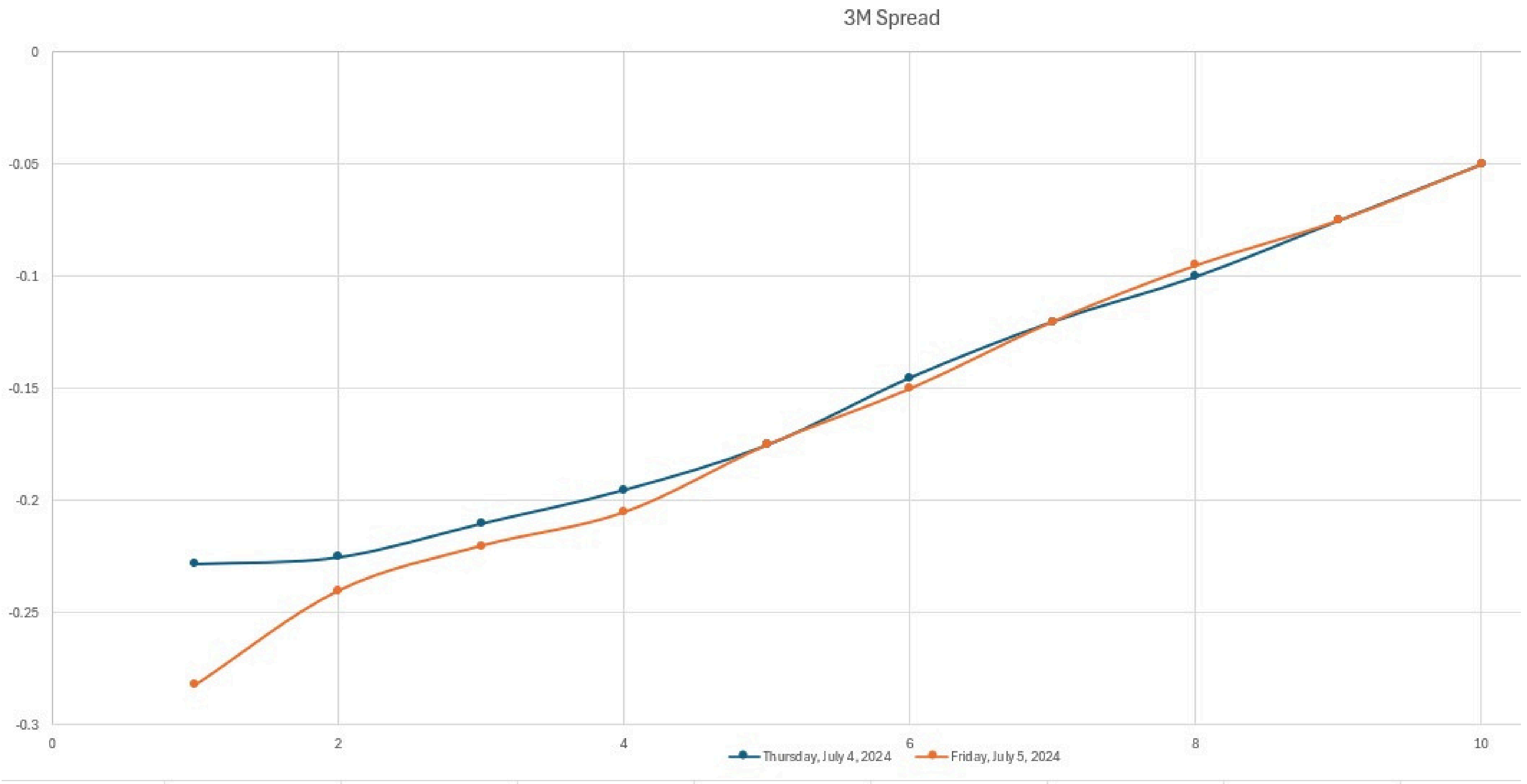

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Theme: SHIFTING FROM INFLATION CONTROL TO INTEREST RATE CUTS

1. INFLATION EASED BUT SHELTER COSTS REMAINED A CONCERN

- Inflation declined, staying within 1-3% target range since Jan 2024.
- but shelter costs (rent and housing) remained high due to strong demand and limited supply.
- The BoC started worrying about inflation falling too low, signaling a shift in focus.

2. THE LABOUR MARKET SOFTENED

- Unemployment rose from 6.1% (April) to 6.4% (June), showing a cooling job market.
- Wage growth slowed, but productivity remained weak, meaning businesses absorbed rising costs instead of passing them on to consumers.
- Job vacancies declined, and hiring slowed.

3. ECONOMIC GROWTH WAS WEAK AND UNEVEN

- GDP growth was slow but positive, mainly driven by population growth rather than increased productivity. Per capita GDP declined, meaning individual
- economic conditions worsened. Consumer spending remained cautious,
- especially among households facing mortgage renewals. Housing activity slowed, but rental demand remained high, pushing rent inflation up.

5. A SHIFT FROM RATE HIKES TO GRADUAL RATE CUTS

- In June, the BoC cut rates from 5.0% to 4.75%, signaling the start of monetary easing.
- In July, another cut to 4.5% reflected growing confidence that inflation was under control.
- Future rate cuts were possible but not guaranteed.

Thank you