Bank of Canada Preview: April 2021

Sell-side analysts unanimously expect the Bank of Canada to keep rates on hold at 0.25 this Wednesday, while a minority posit the better than expected economic outlook since the beginning of the year could pull forward rate hike guidance from 2023 to 2022.

Of the 23 analysts cited, near half also expect a reduction in weekly bond purchases by CAD1B to CAD3B, citing Bank Deputy Governor Toni Gravelle statement on March 23:

- "At the time of our January Monetary Policy Report, we indicated that if the economy plays out in line with or stronger than our economic projection, we won't need as much QE stimulus over time. And in our March policy decision statement, we said that as we continue to gain confidence in the strength of the recovery, we will gradually adjust the pace of our QE purchases. We also indicated that first-quarter growth appears to be better than we expected in January. We will have a new full economic projection at our April policy decision. As new information on the strength of the recovery arrives, Governing Council will continue discussions about gradually adjusting the pace of our QE-related purchases."

Monetary Policy Announcement:
The interest rate announcement at 1000ET is accompanied by an updated quarterly economic forecast. There is no media briefing or lock-up scheduled for the event. Link:
https://www.bankofcanada.ca/2021/04/interest-rate-...

Monetary Policy Report at 1100ET. Tiff Macklem, Governor of the Bank of Canada, will hold a teleconference to discuss the Bank's base-case projection for inflation and growth in the Canadian economy, and its assessment of risks. Link:
https://www.bankofcanada.ca/multimedia/mpr-press-c...

The next rate announcement on Wednesday, June 9, 2021, will not include the quarterly Monetary Policy Report (MPR).

Point of View (POV) Holding Steady at 0.25%

Consensus: The Bank of Canada will keep its target rate on hold at 0.25% Wednesday, while there is an even chance weekly bond purchases are reduced by CAD1B to CAD3B/week.

- Despite the better than expected economic data since the beginning of the year (diminishing labor market slack, improving business sentiment and surge in housing metrics), the Bank of Canada will likely maintain status quo in rates, guidance and stimulus in light of the latest surge in Covid-19 cases domestic and globally. Better to wait for the next policy meeting on June 9 before tweaking policy.

Dovish risk: Unlikely in light of improved economic data, there is a slim chance Bank may view the surge in Covid-19 cases more seriously, opting to push weekly bond buying back to CAD5B, or perhaps introduce a micro-cut of 5-10bp to the rate as had been suggested going into the March meeting.

Hawkish risk: Again unlikely, the bank could taper QE faster than gradual pace mentioned by Bank Deputy Governor Toni Gravelle on March 23: "As new information on the strength of the recovery arrives, Governing Council will continue discussions about gradually adjusting the pace of our QE-related purchases."

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Central Bank Watch - Bank of Canada

April 19, 2021

MNI Bank of Canada Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	1.0	0.7	↑	0.1	↑					-0.36
Core CPI - Median	% y/y	2.0	2.0	→	1.8	↑					1.06
Industrial Product Price	% m/m	2.0	0.0	↑	1.1	↑					1.41
Breakeven 10-Year	%	1.72	1.32	↑	1.31	↑					1.86
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	54.8	55.8	↓	55.1	↓					0.80
GDP	% m/m	0.1	0.8	↓	6.2	↓					-0.91
Manufacturing Sales	% m/m	0.86	2.04	↓	23.14	↓					-0.54
Trade Balance	CAD bn	1.41	-3.90	↑	-2.54	↑					2.16
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M3 Money Supply	% y/y	11.59	15.59	↓	16.29	↓					0.39
Bank Lending Survey (Q)	% m/m	-3.03	7.28	↓	19.16	↓					-0.40
New House Prices	% m/m	0.7	0.8	↓	0.4	↑					0.37
Housing Starts	K	282.4	227.1	↑	245.1	↑					1.60
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	-3.4	1.6	↓	22.2	↓					-0.90
Retail sales Ex-Autos	% m/m	-4.1	1.7	↓	15.2	↓					-1.16
Employment Chge m/m	K	259.2	54.6	↑	213.7	↑					0.54
Ave Hourly Wage Rate	% y/y	4.30	4.84	↓	6.00	↓					-1.91
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
S&P/TSX Composite	Index	19204	17190	↑	16514	↑					1.76
Canadian 10-Year Yield	%	1.56	0.67	↑	0.62	↑					2.23
CAD Yield Curve (2s-10s)	bps	125.2	42.0	↑	34.7	↑					2.05
CAD TWI	Index	124.71	120.08	↑	119.70	↑					1.14

Analyst Views

Bank of America: BoA expects the BoC to keep the target rate steady at the lower bound (0.25) and maintaining forward guidance and QE at CAD4B. While the economy has shown improvements, citing downside risks tied to the pandemic. The BoC "will try to avoid an accident (i.e., withdrawing stimulus too early)."

- BoA does expect the BoC "to announce a roadmap on adjustments to the pace of government bond purchases, to start tapering as soon as in July once it is clearer that the recovery is well under way. The risk to our call is that BoC takes the opportunity to adjust the pace of quantitative easing (QE) right away. We believe risks are skewed toward disappointment in the rates and FX market, which are leaning toward taper at this meeting."

Bank of Montreal: Steady at 0.25. BMO looks for the Bank of Canada "to further slim QE buying, on technical grounds alone. The fact that global bond markets have calmed in recent weeks should give the Bank added comfort to proceed with less aggressive bond buying. And, finally, the scalding housing market may also play into the decision to taper. After all, if tapering leads to slightly firmer long-term bond yields, that's a much more acceptable outcome with housing markets on fire."

Barclays: The Bank of Canada is Bank is likely to strike a "neutral tone" as it holds the target rate, forward guidance and weekly bond purchases steady, citing a choppy recovery that remains "subject to pandemic uncertainty".

- We do not expect the BoC to start tapering asset purchases at this meeting, as the recovery remains choppy and subject to pandemic uncertainty. The bank is likely to wait for data to confirm that the recovery is on firmer footing, even though consumers and businesses have gotten better at managing lockdowns. The market, however, could be slightly disappointed, as the BoC had started to provide some guidance on tapering before the latest COVID wave hit, raising some expectations of an April taper.

- Regarding the MPR, Barclays expects an "upward revision to near-term growth, incorporating the USD1.9trn US stimulus plan and stronger Q4 GDP growth. As BoC's forecast is stale versus consensus, upward revisions should not come as a surprise to markets. Focus will be on any reassessment of output gap and when the bank expects it to close, since that assessment determines the potential time for rates lift-off. Finally, March CPI will be released on Wednesday. We forecast it to have increased 0.6% m/m, driven by higher gasoline prices. We expect annual inflation to reach 2.3% y/y as base effects start to boost the print. Base effects alone can bring annual inflation to around 3% in April. However, we expect core inflation measures to remain well contained.

CBA: Steady at 0.25 into 2023 while they see a "risk" the Bank will taper weekly bond purchases implying Canada's diminishing labor market slack, improving business sentiment and "red-hot" housing market may be transient.

CIBC Capital Markets: Steady at 0.25 while reducing weekly bond purchases by CAD1B to CAD3B. CIBC expects "overall policy will remain quite stimulative though, as the bulk of the purchase reduction should come from shorter duration assets in the 2yr & 3yr sectors. Specifically, we expect a C$750.0mn reduction in front-end purchases, a C$150.0mn reduction in 5yr purchases, and a dv01-equivalent reduction in 10s and 30s.

- CIBC sees "scope for the Bank to ultimately reduce purchases toward C$1.0bn/w by the time we are closer to normalization. From a sequencing perspective, we see a C$1.0bn reduction next week to be followed by a larger reduction in the latter half of H2-21, and an eventual move to reinvestment-only by H1-22."

Citigroup: Steady at 0.25 while reducing weekly bond purchases by CAD1B to CAD3B with a "dovish characterization around the start of tapering given new headwinds to the recovery."

- However, in the policy guidance, they expect a removal of the reference to a closing output gap in 2023. All-in-all, we would see as a slightly hawkish outcome, as the change to the policy guidance could take more market participants by surprise.

Credit Suisse: Steady at 0.25. CS is cautious about whether the Bank will announce a second QE taper despite better than expected economic data since January. CS sees a chance the Bank "may announce a very gradual plan to reduce asset purchases: we think this would add to the already ongoing reduction in balance sheet growth, with positive implications for CAD."

- In the January Monetary Policy Report on 20 Jan and subsequently in the rate decision on 10 Mar, the BoC stated that if growth continued to surprise above expectations, less QE stimulus would be needed over time. Over the following several weeks, economic data has continued to surprise above expectations, with the March employment data and the BoC's Q1 business outlook in particular showing a much larger than expected rebound in hiring momentum and near-record levels of business confidence. The backdrop of ongoing US data outperformance and of market focus on the prospects of additional fiscal spending from the Biden administration have also contributed to the fairly benign outlook.

Goldman Sachs: Steady at 0.25 while reducing weekly bond purchases by CAD1B to CAD3B. GS also expects the Bank "to pull forward its timeline for closing the output gap by a couple of quarters to early 2023. The reason is that a roughly 3.5% upgrade to the 2021Q1 level of GDP, US fiscal stimulus, and greater spending of savings should more than offset softer 2021Q2 growth and higher potential output."

- GS estimates a greater chance of liftoff in 2023 at 60%, "although more limited adjustments to Q2 growth and potential output would pull projected liftoff forward to 2022 (40% probability). To further soften the hawkish message, the BoC is likely to emphasize downside virus risks."

- The BoC is set to recognize on Wednesday that the outlook has brightened since it met in March and especially since the January Monetary Policy Report. Following 3% growth in February-March, employment is now only 1.5% below its pre-pandemic level and employment excluding food and accommodation services has returned to its pre-pandemic level, in contrast to the US.
- The housing market has heated up further with March home sales 70% higher than in 2019 (right panel) and MLS home prices up 20% year-over-year.
- The BoC's Business Outlook Survey (BOS) and its consumer survey featured strong but unequal business and consumer sentiment, and consumers anticipated spending more than one-third of accumulated savings from the pandemic over the next two years, consistent with an upside risk highlighted in January's MPR.

ING: Steady at 0.25 while reducing weekly bond purchases to CAD3B. ING suspects "that the Bank will not exceed consensus expectations considering the worsening contagion situation in Canada and the not-so-fast vaccination roll-out."

- The overnight lending rate will remain at 0.25% and the BoC will continue to emphasize the accommodative overall stance of their policy, but new forecasts will be published to accompany the decision and the news conference is likely to see significant upward revisions to GDP with inflation predictions also likely to be higher in the near-term.
- With the trimmed core inflation rate broadly in line with target, 90% of the jobs lost during the pandemic regained and GDP set to break above pre-pandemic levels in the second quarter there is less need to have the accelerator peddle pressed to the floor.

JP Morgan: Steady at 0.25 while keeping forward policy guidance unchanged. JPM expects the Bank to scale back weekly bond purchases to CAD3B but admit they see "a moderate risk that spiraling COVID-19 cases in the large province of Ontario may cause the Bank to remain cautious about the economic recovery and keep the government bond buying program unchanged. COVID-19 cases are setting new records in the province and hospitalizations are surging. And an uptrend in new cases in other provinces is adding to the uncertainty."

Laurentian Bank: Steady at 0.25. "There has been too much talk about the micro-cuts earlier in 2021, particularly since confidence improves relative to the outlook. Furthermore, the pass-through of changes in the policy rate near the zero bound is more limited as shown in Scandinavian countries, making the case for an indeed lower bound than 0.25% not very meaningful in the grand scheme of things."

Morgan Stanley: Steady at 0.25. MS said the most likely outcome from Wednesday's policy announcement is the "Governing Council opts to insert its optimism about the economic outlook into the positively revised set of MPR forecasts, pulling ahead the expected closing of the output gap in the forward guidance, and setting up to taper asset purchases if the incoming data continues to track alongside the revised MPR expectation into the June economic progress report (or even July MPR) meeting."

RBC: Steady at 0.25 while reducing weekly bond purchases to CAD3B "with reductions across the curve but mostly concentrated in the 2y sector (down from C$1.75bn/week to C$1.1bn/week). Part of this is from improved economic performance – both Q4 actual GDP and Q1 GDP tracking are well above the BoC's January MPR projections – as well as from the lower expected bond issuance noted above."

- Concerns about the strong third wave of COVID-19 should be balanced somewhat by an earlier vaccination timeline, but the BoC should again emphasize uncertainty. Attention will be on its forward guidance on rate. The January and March statements had the timing as "into 2023" for when the criteria of slack being absorbed and inflation sustainably at 2% would be achieved.
- Our forecasts clearly show these being met in 2022, but the BoC's review of its estimates of current slack and potential growth at the meeting may see it keep language similar to the last MPR. The change should come at some point this year, if not at the meeting itself.

Scotiabank: Steady at 0.25%. "Forward guidance needs to be read in tandem with the Bank staff's forecasts. Given that vaccines have arrived earlier than anticipated by the Bank and the economy is doing a bit better than forecast, the combined implications of the Bank's guidance and forecasts is clearer than either of those pieces alone."

TD Securities: Steady at 0.25 while reducing weekly bond purchases to CAD3B. "However, it may wait to see the impacts of the third wave before making a call on the overnight rate, which it had previously said will remain at the effective lower bound until sometime in 2023." Nevertheless, TD now look for a rate hike in October 2022.

- The Bank of Canada (BoC) will be watching the budget closely as it prepares the April Monetary Policy Report (MPR). The Bank had assumed the government will spend$70 billion of the unallocated funds in the January MPR.
- This will need to be revised if the budget incorporates some-thing different. In fact, the Bank's previous forecasts will require a hefty upward revision given the resilience shown by the Canadian economy. In January, the Bank expected GDP growth in the fourth quarter of 2020 to be 4.8% q/q annualized, but actual growth came in double that at 9.6%(Chart 2). Likewise, the Bank expected GDP to contract in the first quarter of 2021, but monthly data suggest the economy will see a strong expansion to start the year.

UniCredit: Economic sentiment improved in 1Q21 as the latest BoC survey indicated, but the BoC is set to keep rates unchanged at the current 0.25% again after the bank committed itself at its last meeting on 10 March to remaining on hold until 2% inflation target is substantially achieved (at just +1.1% yoy in March). A steady BoC outcome will probably be neutral for USD-CAD attempts to break back below 1.25 baseline.

Limited policy opinion of steady at 0.25 from the following:
Desjardins Financial Group, Deutsche Bank, National Australia Bank (NAB), National Bank of Canada, Skandinaviska Enskilda Banken (SEB), Wells Fargo and UBS.

MNI Policy

MNI STATE OF PLAY: BOC Likely Tapering QE to CAD3B a Week

By Greg Quinn

OTTAWA (MNI) - Canada's central bank will likely reduce its weekly target for government bond purchases to CAD3 billion from CAD4 billion at a meeting Wednesday on signs the economy will rebound from the pandemic this year.

The BOC is set to leave its overnight lending rate at 0.25% in its decision at 10am EST from Ottawa, and officials may also stress their intention is to keep meaningful stimulus in place for some time, with Deputy Governor Toni Gravelle saying in a recent speech that unwinding of QE would be done in "gradual and in measured steps."

The need for more monetary stimulus is being reduced with Canada recovering most of the jobs lost during last year's shutdown and industries such as manufacturing restoring more regular production through second and third waves of Covid-19. BOC officials have signalled that if the economy does well, they could shift the focus of QE to stabilizing the balance sheet's size and reinvesting maturing assets.

Major fiscal stimulus is also taking the pressure off the BOC, as relief checks leave households with record cash savings for whenever stores open more normally. Finance Minister Chrystia Freeland's federal budget due at 4pm EST Monday is likely to press on with more big spending.

CONFIDENCE IN RECOVERY

Canada's exports of goods like lumber and energy are providing a surprise boost after years of disappointment, as major U.S. fiscal relief turbocharges demand. That may lead the BOC to follow the IMF's lead in boosting Canada's 2021 growth projection to 5% from the central bank's January estimate of 4%.

Some economists predict the BOC may say the economy returns to full output in 2022 rather than 2023, though that may not lead it to also shorten its guidance on rate hikes.

"Many firms consider the impacts of the pandemic on their activities to be behind them," the BOC said last week in its anecdotal quarterly survey of business conditions, while noting that many firms linked to close-contact services are struggling. The last rate decision March 10 said that "as the Governing Council continues to gain confidence in the strength of the recovery, the pace of net purchases of Government of Canada bonds will be adjusted as required."

Governor Tiff Macklem has said QE will remain in place until the rebound is well underway, and that conditions required for a rate hike such as returning inflation sustainably to a 2% target won't be met until 2023.

Statistics Canada has not yet reported March CPI, which will show the first month of price gains driven by a comparison to last year's slump in gasoline, but it did release figures for February adjusting to new pandemic spending patterns that moved inflation to a 1.5% pace from the official 1.1% reading. Macklem has said inflation will likely peak around the top of the 1%-3% target band in the next few months, though the deep pandemic recession will keep prices in check.

AVOIDING OWNING TOO MUCH

The statement may also renew concern about the Canadian dollar strengthening to CAD1.25 per U.S. dollar from CAD1.40 over the last year, and home prices rising at a 32% annual pace suggesting consumers are taking on riskier mortgages.

Policy makers are aware of investor concerns that BOC holdings of 35% of the government bond market is higher than those of other central banks. Some traders have warned it would reach 50% by year-end without a policy shift, something that could create trading frictions.

That problem has emerged even after the BOC tapered last year from its original CAD5 billion target, and shifted purchases to longer-term debt more aligned with the majority of lending to consumers and businesses.

Wednesday's decision comes with a quarterly economic forecast paper and a press conference that investors say make a major policy shift more likely. Another forecast upgrade will be for Q1 growth that market economists estimate at a 5% annualized pace-- the BOC in March said there would merely be an expansion instead of a contraction.

A CAD1 billion tapering by the BOC was expected by eight of 11 economists surveyed by MNI, with three seeing no taper. Twenty out of 20 forecasts saw the overnight lending rate remaining at 0.25%.