# Bank of Canada Preview: December 2020

## Details:

**Monetary Policy Announcement:**

- 1000ET Final 2020 interest rate announcement for the overnight rate target, including a short explanation of the factors influencing the decision.
- No Monetary Policy Report or press conference following Wednesday's rate announcement, but Deputy Governor Paul Beaudry will present the Economic Progress Report "Our quantitative easing operations: Looking under the hood" via videoconference on Thursday at 1330ET (media Q&A at approximately 1450ET). Link: https://tinyurl.com/y6tbrqot
- The next rate announcement will be Wednesday, January 20, 2021 will include the quarterly Monetary Policy Report (MPR). Implementation adjustment: according to the Bank of Canada site, "starting in 2021, the target for the overnight rate will take effect on the business day following each rate announcement. This differs from the Bank's current approach, whereby Governing Council rate decisions apply immediately upon release. The Bank is also reviewing the publication time of its interest rate announcements, which is currently 10:00 (ET). Any changes resulting from this review will be communicated in due course.

## Point of View (POV) **STEADY At 0.25%**

The Bank of Canada will keep its target rate on hold at 0.25% Wednesday, holding QE steady after extending duration/reducing size of purchases at the October policy announcement. Expect a cautious outlook as Covid cases spike globally, dampening more positive summer economic projections, while arrival of vaccines is likely to allay concerns. Dovish/hawkish risks are more forward looking.

- **Dovish risk:** Worsening virus spread, tighter lock-down restrictions or vaccine distribution issues present dovish risks. Though negative rates remain a non-starter, increased QE or other stimulus measures could be brought to bear.
- **Hawkish risk:** A positive break in the spread of Covid, coupled with faster than expected rebound from the virus-lead drag on the economy, would likely spur speculation over tighter policy implementation. That said, hiking rates after sustainably reaching 2% inflation remains a long way off (late 2022- to 2023 est).

**mni Central Bank Watch - Bank of Canada**

December 08, 2020

**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 | 0.7 | 0.1 | ↑ | -0.2 | ↑ | | | | | -0.82 |
| Core CPI - Median | % y/y | 1.9 | 1.8 | ↑ | 2.0 | ↓ | | | | | 0.50 |
| Industrial Product Price | % m/m | -0.4 | 0.8 | ↓ | -2.4 | ↑ | | | | | -0.14 |
| Breakeven 10-Year | % | 1.35 | 1.31 | ↑ | 0.75 | ↑ | | | | | 1.06 |
| **Economic Activity** | | **Current** | **3m ago** | **3m Chg** | **6m ago** | **6m Chg** | **2Y History** | **Hit / Miss** | **Vs Trend** | **Surprise Index** | **Z-Score** |
| PMI Manufacturing | Index | 55.8 | 55.1 | ↑ | 40.6 | ↑ | | | | | 1.11 |
| GDP | % m/m | 0.8 | 6.2 | ↓ | -7.1 | ↑ | | | | | 0.20 |
| Manufacturing Sales | % m/m | 1.52 | 23.14 | ↓ | -9.67 | ↑ | | | | | 0.06 |
| Trade Balance | CAD bn | -3.76 | -2.27 | ↓ | -5.07 | ↑ | | | | | -0.42 |
| **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 | 15.59 | 16.29 | ↓ | 10.17 | ↑ | | | | | 1.71 |
| Bank Lending Survey (Q) | % m/m | 7.28 | 19.16 | ↓ | 7.69 | ↓ | | | | | 0.64 |
| New House Prices | % m/m | 0.8 | 0.4 | ↑ | 0.0 | ↑ | | | | | 0.92 |
| Housing Starts | K | 214.9 | 244.9 | ↓ | 164.7 | ↑ | | | | | 0.09 |
| **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 | 1.1 | 22.2 | ↓ | -10.0 | ↑ | | | | | -0.03 |
| Retail sales Ex-Autos | % m/m | 1.0 | 15.2 | ↓ | 0.0 | ↑ | | | | | 0.00 |
| Employment Chge m/m | K | 62.1 | 245.8 | ↓ | 289.6 | ↓ | | | | | 0.01 |
| Ave Hourly Wage Rate | % y/y | 4.84 | 6.00 | ↓ | 9.96 | ↓ | | | | | -0.90 |
| **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 | 17582 | 16514 | ↑ | 15193 | ↑ | | | | | 1.24 |
| Canadian 10-Year Yield | % | 0.76 | 0.62 | ↑ | 0.53 | ↑ | | | | | 1.36 |
| CAD Yield Curve (2s-10s) | bps | 48.6 | 34.7 | ↑ | 24.4 | ↑ | | | | | 1.45 |
| CAD TWI | Index | 121.81 | 119.70 | ↑ | 114.53 | ↑ | | | | | 1.34 |

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg



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# Analyst Views

**Bank of Montreal:** Steady at 0.25. "Look for the BoC to say that the economy is performing more or less as expected."

- "Given the uncertainty around the vaccine timeline, the Bank may hold off on commenting there. Even so, it's clear their mid-2022 timeline is WAY too conservative," BOM wrote, "whether that means upgrades to the forecast, we'll have to wait for January's MPR to find out."
- "The other potential positive for the BoC's outlook is the added fiscal stimulus in this week's budget update. While the timing on when the money is coming wasn't perfectly clear, it's coming and that's a positive. Perhaps the biggest hurdle to the Bank turning more upbeat is the resurgence in the Canadian dollar."

**Barclays:** Steady at 0.25 "for the foreseeable future", quantitative easing unchanged.

**CIBC Capital Markets:** Steady at 0.25. "It's too soon to expect a further adjustment" after reducing the size and extending maturity of QE at the October policy meeting, CIBC said, adding the BOC "will likely cite additional fiscal stimulus as a positive for the outlook."

- "The one item to watch for in the statement is whether they opt to mention the appreciating Canadian dollar as a potential drag on growth. That would typically be a warning signal for foreign exchange markets, but the Bank has limited choices now in terms of how to lean against it, given that a cut to a 0.1% overnight rate might only work for a day or two."

**Citigroup:** Steady at 0.25. "Near-term downside risks to activity from a virus 'second-wave' suggest the BoC will err on the side of caution, continuing to emphasize it will act as necessary to support the economic recovery. Recent strength of the Canadian dollar with a broad-based weakening in the USD would also suggest a possibly dovish lean."

**Credit Suisse:** Steady at 0.25. The BoC "will likely stay on hold unless conditions deteriorate rapidly."

**Goldman Sachs:** Steady at 0.25. GS expects "policymakers will again signal their intention to keep the policy rate at the lower bound until inflation sustainably reaches 2% and slack is fully absorbed and will reiterate that they expect liftoff in 2023."

**ING:** Steady at 0.25. "The jump in employment in November is another factor which suggests the BoC does not need to expand its stimulus package (via rate cuts or more QE). At the same time, with lingering uncertainty about the timing for rolling out a vaccine, Governor Tiff Macklem is unlikely to sound too hawkish or upbeat on the recovery. The most preferable scenario for the BoC and the most likely to materialize in our view is for the meeting to go down as a non-event."

**JP Morgan:** "Markets expect the BoC will leave rates unchanged at 25bps and will look towards rhetoric on asset purchases and inflation targets to determine future policy action.

**NatWest:** Steady at 0.25. The "worsening of Covid-19 trends both in Canada and in the US suggests that the BoC may take a more cautious and downbeat tone in its December statement, but we think the BoC is unlikely to alter its policy rate, forward guidance, or QE program. Despite the worsening of Covid-19 trends in Canada, our outlook for the CAD has brightened in light of recent developments for vaccine distribution."

- NatWest posits the BoC "is more likely to consider action at its January 2021 monetary policy meeting, which includes both fresh forecasts and, hopefully, more visibility on the timing of any vaccine distribution and fiscal stimulus plans."

**RBC:** Steady at 0.25. RBC posits a "worsening second wave means near-term risks are higher while the medium-term outlook is improved. The combination should leave the BoC comfortable with the current policy settings."

- "In terms of the statement itself, the BoC is likely to note the lighter Q3 GDP outturn without sounding overly concerned given the firmer domestic demand story. Any indication on the absorption of excess slack - added to the forward guidance on policy rate in October as "into 2023" - should be left until the fully updated projection (and presumably more precise vaccine roll-out timelines) at the January MPR."

**Scotiabank:** Steady at 0.25, no change to bond purchase scheme. "The statement will be a full rewrite compared to the prior forecast-oriented one, but it is likely to convey some sense of three main messages: near-term risks have risen with the spread of COVID-19 and tightened restrictions; vaccines offer greater hope and the US election is out of the way; but an extended period of accommodation is likely as it will take time to repair the damage brought on by the pandemic."

**TD Securities:** Steady at 0.25. "Forward guidance continuing to indicate that it will remain there until slack is fully absorbed" sometime in 2023. "The QE program should remain at a minimum of $4bn per week, with no further changes to the composition of GoC buybacks. Look for the Bank to continue to indicate that QE will remain in place until recovery is 'well under way'.

## MNI Policy

### MNI PREVIEW: BOC Seen Holding CAD4B QE Pace, 0.25% Rate

By Greg Quinn

OTTAWA (MNI) - The Bank of Canada is expected to hold its key lending rate at 0.25% Wednesday and maintain CAD4 billion a week of asset purchases, avoiding another scaling back of QE as vaccine breakthroughs keep economic recovery in sight amid the current rise in Covid cases.

The BOC scaled back from the CAD5 billion weekly pace at its last meeting in October and said QE would be more effectively targeted on longer duration assets that better reflect where most household and corporate borrowing takes place.

Governor Tiff Macklem told lawmakers recently that he has plenty of room if needed to boost asset purchases again, and he's nowhere near a threshold of the bank's owning well over 50% of federal bonds that could cause disruptions in fixed-income markets. He has also said it's far too early to think about exit strategies.

The BOC's October outlook said the economy faces a long and difficult climb back from a 5.7% GDP contraction this year, and interest rates won't rise until inflation sustainably returns to a 2% target, perhaps sometime in 2023. In the near term, growth likely almost stalled again this quarter after a rebound following a spring lockdown, with local governments stepping up new health shutdowns.

The QE program is due to stay in place until the recovery is well underway, and assuming a near stall in the fourth quarter, there would likely need to be at least two quarters of solid growth again before it could be done away with.

**STRONG DOLLAR REPRISE?**

Investors are looking for another reference in the statement due 10 a.m. New York time to the strength of the Canadian dollar, which has gained about 3 cents to a two-year high of CAD1.28 since the last decision. While that could suggest further concern export weakness, the central bank rarely acts outright on such frictions and in the past has compensated by extending low-for-long rates.

On the plus side, fiscal policy is playing a role in Canada most other central bankers can only wish for in shouldering the stimulus burden. The federal deficit is approaching 20% of GDP, a figure unmatched since World War II, and most of the money going straight to households and small firms. That makes it more credible when Macklem said cutting rates further is a most unlikely scenario.

The dozen economists surveyed by MNI all say the rate will be unchanged Wednesday, and several said any BOC move to further trim QE will come early next year. The BOC's October projections assumed a widely available vaccine wouldn't come until mid-2022, so if one is distributed early next year a rebalancing of risks will likely be needed then.

"The BoC should feel no compelling urge to alter stimulus now and the dialogue over 2021 is likely to gradually transition toward bracing markets for eventual policy exits." --Scotiabank's Derek Holt

Wednesday's meeting is also the last day for Senior Deputy Governor Carolyn Wilkins, who is leaving before her seven-year term expires in May, and a replacement hasn't been named yet. The decision is one of the four each year without a full economic forecast or press conference, though there will be an economic report card speech on Thursday.