

# Bank of Canada Preview: June 2020

## Details:

**Monetary policy decision:** 1000ET/1400GMT/1500CET, Wednesday 3, June 2020. Release of the interest rate announcement for the overnight rate target in addition to a short explanation of the factors influencing the decision on the Bank's website: Link: <https://www.bankofcanada.ca/>

No media lock-up or briefing; no Monetary Policy Report (next release July 15)

## Point of View (POV)

### BOC HOLDING THE LOWER BOUND

The Bank of Canada is widely expected to keep its target rate on hold at 0.25% Wednesday as BoC governor Stephen Poloz passes the baton to Tiff Macklem. There will be no media lock-up or briefing; no Monetary Policy Report (next release July 15).

- Base Case: Steady as she goes as many view the state of the Canadian economy less downbeat after the country started staggered openings around mid-May as virus cases leveled out.
- Dovish: Break (zero) only in case of emergency -- a move to zero bound an option of last resort, analysts widely see any additional easing to come in the form of QE, credit and/or liquidity enhancing measures.
- Hawkish: Raising rates still not an option for the foreseeable future. While the rise in COVID-19 virus cases may have moderated, too many unknowns remain with no vaccine available.

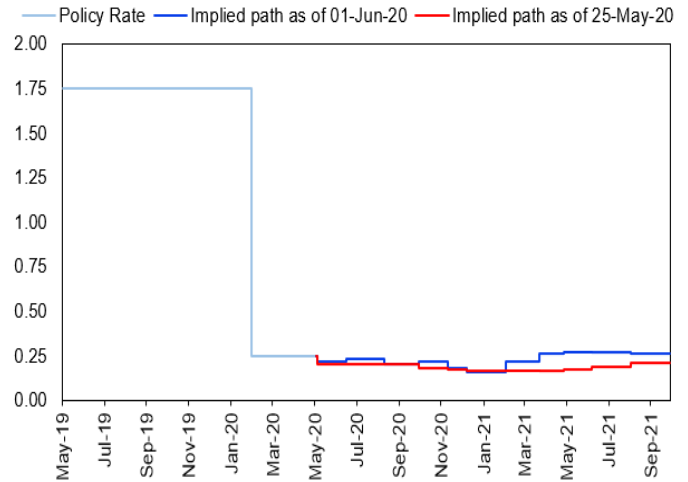
## mni Central Bank Watch - Bank of Canada

MNI Bank of Canada Data Watch List											
		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
<b>Inflation</b>											
CPI	% y/y	-0.2	2.4	↓	1.9	↓					-3.41
Core CPI - Median	% y/y	2.0	2.1	↓	2.1	↓					-1.06
Industrial Product Price	% m/m	-2.3	-0.3	↓	0.0	↓					-1.94
Breakeven 10-Year	%	0.75	1.32	↓	1.35	↓					-0.62
<b>Economic Activity</b>											
PMI Manufacturing	Index	33.0	50.6	↓	51.2	↓					-3.78
GDP	% m/m	-7.2	0.3	↓	0.0	↓					-2.47
Manufacturing Sales	% m/m	-9.19	-0.75	↓	-0.24	↓					-2.43
Trade Balance	CAD bn	-1.41	-0.52	↓	-1.30	↓					-0.53
<b>Monetary Analysis</b>											
M3 Money Supply	% y/y	10.17	7.79	↑	8.35	↑					1.89
Bank Lending Survey (Q)	% m/m	7.69	-15.62	↑	1.94	↑					1.68
New House Prices	% m/m	0.0	0.0	→	0.1	↓					-0.82
Housing Starts	K	166.4	218.5	↓	203.1	↓					-2.07
<b>Consumer / Labour Market</b>											
Retail Sales	% m/m	-10.0	0.2	↓	0.1	↓					-2.44
Retail sales Ex-Autos	% m/m	-0.4	0.7	↓	0.0	↓					-1.14
Employment Chge m/m	K	-1993.8	34.5	↓	-3.2	↓					-2.17
Ave Hourly Wage Rate	% y/y	10.50	4.43	↑	4.36	↑					2.36
<b>Markets</b>											
S&P/TSX Composite	Index	15193	16263	↓	17040	↓					-0.84
Canadian 10-Year Yield	%	0.57	1.13	↓	1.46	↓					-1.25
CAD Yield Curve (2s-10s)	bps	26.9	-2.3	↑	-12.3	↑					1.12
CAD TWI	Index	114.92	117.67	↓	118.90	↓					-0.77

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

## MNI PINCH (Probability of Interest Rate Change)

Canada		Overnight Rate			Rate Increment		
		Today	1w Ago	1m Ago	Today	1w Ago	1m Ago
Canada		0.25%			25bp		
Policy Meetings		Spline-Based			Model-Based		
		Today	1w Ago	1m Ago	Today	1w Ago	1m Ago
Meeting 1	03-Jun-20	-13.7%	-19.8%	5.8%	-2.5%	-3.2%	-4.5%
Meeting 2	15-Jul-20	-6.6%	-17.6%	-0.4%	-6.8%	-7.5%	-7.1%
Meeting 3	09-Sep-20	-20.1%	-20.0%	-0.4%	-10.0%	-10.7%	-8.4%
Meeting 4	28-Oct-20	-11.9%	-26.7%	1.4%	-11.6%	-12.5%	-8.1%
Meeting 5	09-Dec-20	-27.6%	-29.9%	4.0%	-12.2%	-13.3%	-7.2%
Meeting 6	06-Jan-21	-35.8%	-32.9%	1.4%	-12.1%	-13.5%	-5.2%
Meeting 7	03-Mar-21	-14.4%	-34.0%	-3.5%	-11.0%	-12.8%	-1.5%
Meeting 8	21-Apr-21	3.7%	-32.6%	-1.0%	-9.3%	-11.6%	2.3%
Meeting 9	26-May-21	7.5%	-29.3%	5.4%	-7.2%	-9.9%	6.5%
Meeting 10	07-Jul-21	6.8%	-23.9%	14.9%	-3.7%	-7.1%	12.6%
Meeting 11	01-Sep-21	4.7%	-16.6%	27.1%	1.1%	-3.1%	20.7%
Meeting 12	27-Oct-21						



## Analyst Views

**Bank of America:** On hold at .25% for the "foreseeable future".

**Bank of Montreal:** Steady at 0.25. "Rate cuts at this point seem extraordinarily unlikely with both Poloz and Macklem both noting that they consider 25 bps to be the effective lower bound at the moment. Negative rates should be seen as an absolute last resort...we're not there yet. Yield curve control is a popular idea, but with GoC yields close to record lows, there doesn't seem to be much need to "control" the yield curve.

**CIBC Capital Markets:** Likely on hold. "There is a lot 'going on' in Canada this week, but only the jobs report really matters. The BoC rate decision (the last under Poloz) won't provide much by way of new information, while the trade data remains stale given we already have a 'flash' estimate of April GDP."

**Citi:** Steady at 0.25. The Bank of Canada "is unlikely to pursue any substantial changes to its asset purchase programs in our view. With purchases of provincial and corporate bonds having just begun in the last few weeks, it is likely too soon to determine that purchases would need to be extended beyond their current intended size."

**Conference Board of Canada:** Steady at 0.25%. "With the overnight rate already at 0.25 per cent and the Bank of Canada's recent guidance that it considers that the effective lower bound, a change in interest rates is unlikely."

**Goldman Sachs:** Steady at 0.25. "While activity data have been very weak in an absolute sense, we expect policymakers to describe the economy as evolving in line with the Bank's less downbeat scenario." GS does not expect any "major changes to the liquidity programs and expect the Bank to repeat that it stands ready to provide more support if needed. Looking beyond Wednesday, we expect forward guidance reinforced with short-end yield curve control once relaxed supply constraints allow incoming Governor Macklem to shift from market functioning to demand stimulus."

**HSBC:** Steady at 0.25 and "no new programs to be introduced. The policy statement is expected to highlight the exceptional level of uncertainty but also to note that there have been some recent positive developments as containment measures are easing and signs that some of financial market strains have lessened."

**HSBC cont:** "The statement is expected to reiterate Governor Stephen Poloz's recent view that the decline in

economic activity might be tracking the BoC's "best case" scenario from its April forecast that GDP that might decline by between 15% and 30% relative to its level in late 2019. Looking ahead, the policy statement is expected to highlight that the bank stands ready to adjust the asset purchase programs to support financial markets and that it has the tools to provide additional monetary stimulus if required to support a sustainable recovery."

**ING:** Steady at 0.25. "There is broad based economic decline with little inflation threat yet the BoC has repeatedly stated that interest rates are already at their effective lower bound."

**JP Morgan:** Steady at 0.25 while watching "for any shifts in tone around the Bank's ongoing asset purchase programs." Tiff Macklem "will take over as governor when the He has expressed support for the Bank's aggressive policies in public remarks recently, and we generally expect continuity in the Bank's actions and tone as he takes the helm."

**Laurentian Bank Securities:** Hold at 0.25%. "The outlook for the recovery is clouded by low consumer confidence, anxiety about the virus itself and a likely delay to the housing sector. All these factors lean in favour of a below-target CPI inflation over the medium-term."

**Morgan Stanley:** Steady at 0.25 with Wednesday marking incoming Governor Tiff Macklem's first meeting with a likely "message that the BoC remains ready to act as needed to support the recovery."

**RBC:** Steady at 0.25. "Non-existent BA purchases the past four weeks and much reduced take-up at new term repos (though the stock is C\$200bn) suggest the BoC's efforts have assisted in stabilizing the market. GoC bond purchases - minimum C\$5bn per week - are sizable already and provide a material offset to elevated GoC bond issuance. If anything, the easing of the COVID-19 related shutdowns have occurred marginally faster than expected and growth indications are slightly better than feared in the near-term."

**Scotiabank:** Hold at 0.25%. "The BoC could improve the dialogue within the community of primary dealers, economists and the BoC by perhaps introducing a survey of policy expectations modelled along the lines of what the New York Federal Reserve conducts. Such a survey could inform the degree of confidence economists have around their base case policy and macro projections and introduce more widespread discipline to think through evolving balance sheet dynamics and their potential effects upon the Canadian market."

**TD Securities:** Hold at 0.25%. "Anyone looking for a marked change in policy is likely to be disappointed. The forward looking portion of the statement is likely to continue to carry forward the spirit of the April meeting, even if the precise wording changes. The Bank will emphasize their willingness to adjust these programs going forward if needed, and will pledge their fidelity to the inflation target. We may also see some admission that the balance of risks skews towards persistently undershooting the inflation target, which implies the need for considerable ongoing policy stimulus."

## MNI Policy

BOC Seen Standing Pat on Macklem's First Day

--Retiring Poloz, Incoming Macklem, Both See 0.25% as Lower Bound

By Greg Quinn

OTTAWA (MNI) - The Bank of Canada will likely hold its 0.25% benchmark interest rate and press on with its emergency balance sheet expansion on Wednesday, in what is expected to be a relatively uneventful handover from Stephen Poloz to new governor Tiff Macklem.

Policy makers typically begin deliberations more than two weeks in advance and the press release is written on Tuesday, according to a background document on the BOC's website, effectively making the decision a done deal before Macklem officially arrives. Macklem also told reporters when he was appointed that he agrees with Poloz's main policy views.

Those include avoiding negative interest rates that could confuse the public and introduce new instability into financial markets, and instead using asset purchases to boost markets and the economy. The major operations are

already established including CAD5 billion of federal bonds a week until the recovery is well underway, and new programs to buy up to CAD50 billion of provincial bonds and CAD10 billion of corporates.

"This is an unprecedented situation and calls for an unprecedented response," Macklem said May 1 at a joint press conference with Poloz confirming his nomination. Macklem was a former top BOC deputy who left after Poloz took the top job seven years ago, and returns after leading the University of Toronto's business school.

The BOC's balance sheet has surged to a record CAD464 billion or 20% of Q1 GDP, and it could rise by another CAD200 billion or more in coming months. The BOC's government bond and bill purchases help backstop a federal deficit topping CAD260 billion or 15% of GDP and the economy faces permanent damage after bottoming out with a 40% annualized decline this quarter.

### **--AVOIDING GUIDANCE**

This decision is the first since January before the global spread of Covid-19 to have such low expectations for new policies. The BOC cut rates 150bps in March to 0.25% and used the April meeting to ramp up asset purchases, saying rates were at the lower limit and avoiding forward guidance that was deployed in the global financial crisis. All economists surveyed by MNI see the rate holding at 0.25% in the decision due at 10am from Ottawa.

Poloz is unlikely to tie Macklem's hands this week with forward guidance on interest rates, something he himself shunned even as he cut rates back to record lows.

The BOC will also likely wait until the July meeting that comes with a Monetary Policy Report to restore the economic forecasts it dropped in April. That leaves investors mostly focused on any new language regarding the scenario for output to fall 15%-30% in the first half of the year and the inflation rate to move towards zero this quarter.

While some economists have said the CAD10 billion of corporate purchases seems small and could be expanded, demand for other facilities aimed at private companies has slowed in recent weeks, suggesting more isn't needed for now.

Poloz has also declined to call his asset purchases QE, saying the aim for now is stabilizing markets. In its last decision, the BOC, like the Fed, made a commitment to unlimited support as needed, saying "The Bank's Governing Council stands ready to adjust the scale or duration of its programs if necessary."

With Canada having reported the early tally of damage from Covid-19, including Friday's report of an 8% annualized decline in Q1 GDP and three million jobs lost in March and April, the BOC on Wednesday may provide some more color on the shutdown and recovery.