Bank of Canada Preview: October 2020

Details:

Monetary Policy Announcement:

- 1000ET Release of interest rate announcement for overnight rate target, includes short explanation factors influencing the decision. The Bank will also publish the final quarterly Monetary Policy Report (MPR) for 2020 at the same time as the rate decision. Link: https://www.bankofcanada.ca/
- 1100ET MPR press conference by Governor Tiff Macklem and Senior Deputy Governor Carolyn Wilkins to discuss the contents of the Report. Link:
- https://www.bankofcanada.ca/multimedia/mpr-press-conference-webcasts-october-2020/

Notes:

- The final interest rate announcement for 2020 will be Wednesday, December 9. First rate announcement of 2021 will be Wednesday, January 20 and 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. 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) **NO SURPRISES FROM BOC, STEADY At 0.25%**

Baseline expectations: the Bank of Canada is yet again expected to keep its target rate on hold at 0.25%. Markets will be alert to any changes in asset purchases via QE and/or mortgage lending via Canada Mortgage Bonds (CMB) Program. Despite the negative effects of COVID-19 since summer, the Monetary Policy Report's GDP growth expectations are widely expected to be positive after pessimistic estimates made in July.

- **Dovish risk:** Not from negative rates which the BoC remains disinclined to use, but from tweaks to QE or additional GoC bond buybacks, already robust at $5 bln/week.
- **Hawkish risk:** Not as unlikely as dropping into negative territory, hiking rates after reaching a sustainable 2% inflation target is a long way off (2022-2023 est). Tapering back QE is more likely to come sooner.

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

October 26, 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	0.5	0.7	↓	0.9	↓					-1.12
Core CPI - Median	% y/y	1.9	1.9	→	2.0	↓					-0.35
Industrial Product Price	% m/m	0.3	1.2	↓	-0.7	↑					0.51
Breakeven 10-Year	%	1.21	0.84	↑	0.27	↑					0.72
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	56.0	47.8	↑	46.1	↑					1.20
GDP	% m/m	3.0	-11.6	↑	0.1	↑					0.57
Manufacturing Sales	% m/m	-2.01	11.99	↓	0.63	↓					-0.15
Trade Balance	CAD bn	-2.45	-1.33	↓	-1.62	↓					0.13
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	15.39	14.86	↑	8.63	↑					1.86
Bank Lending Survey (Q)	% m/m	19.16	7.69	↑	-15.62	↑					1.81
New House Prices	% m/m	1.2	0.1	↑	0.3	↑					2.19
Housing Starts	K	209.0	211.8	↓	196.8	↑					-0.10
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	0.4	21.2	↓	0.7	↓					-0.07
Retail sales Ex-Autos	% m/m	0.5	11.6	↓	0.6	↓					-0.04
Employment Chge m/m	K	378.2	952.9	↓	-1010.7	↑					0.49
Ave Hourly Wage Rate	% y/y	5.43	6.80	↓	6.12	↓					-0.64
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	16304	15515	↑	13379	↑					0.20
Canadian 10-Year Yield	%	0.63	0.53	↑	0.70	↓					-0.35
CAD Yield Curve (2s-10s)	bps	39.3	23.6	↑	27.2	↑					0.77
CAD TWI	Index	118.64	116.12	↑	112.28	↑					0.65

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. BMO expects "little intrigue on policy rates, with no change from 25 bps expected for years."

- BMO doesn't expect "any changes in the provincial bond buying program are imminent, as the fixed end date (May 2021) and ability to raise/lower the pace suggests there's no reason for an early end date. There's a non-zero chance of a change to the GoC buybacks as the $5 bln/week minimum has some challenges."
- As to the MPR, after a relatively pessimistic real GDP growth projection in July, BMO expects some "notable upgrades" as the Canadian economy has "materially outperformed" despite the negative effects of COVID-19. "Look for 2020 growth to be lifted about 2 ppts from the -7.8% projected in July. However, that likely also means 2021 expectations will be trimmed a bit, especially with COVID cases on the rise. Look for the output gap to persist into 2022 and potentially beyond, keeping."

Barclays: Steady at 0.25 "for the foreseeable future", quantitative easing program unchanged, while the MPR will "dwell upon the cautious road to recovery" given the rising wave of COVID-19 cases.

- Barclays said the "bar for action in this week's meeting is higher due to extended fiscal support and the BoC would likely want to assess the outcome of US Elections, further easing indications by Fed and the economic impact of the second surge in local cases before deploying further assistance."
- The MPR "will likely revise its central scenario assumptions to incorporate the second pandemic wave and update their growth and inflation forecasts accordingly. However, low fatality and test-positivity rates, and a better management of the health crisis, likely mean that BoC will not be overly pessimistic."

CIBC Capital Markets: Steady at 0.25% for the next couple years. CIBC said the "Bank has committed to staying at 0.25% until economic conditions would be consistent with sustained 2% inflation. While we see periods of above 2% inflation in the year ahead (as we lap very low 2020 gasoline prices), by sustainable, the Bank means that the CPI is being backstopped by a narrow output gap. A quick look at its CPI forecast table is likely to show, as it did in July, no year with inflation averaging 2% or higher through 2022. That implies that rates are on hold until at least 2023 in the Bank's base case outlook."

- CIBC expects "sizeable upgrades" to Canadian GDP to around the mid-5% range vs. -7.8% previously. "Inflation is still running well below the 2% target, but the Bank of Canada can take comfort that its core measures have stabilized, and their 1.7% average is much closer to that target. Headline inflation could still fall a touch below the BoC's 0.4% forecast for Q4, but not meaningfully."

Citigroup: Steady at 0.25.

Desjardins Financial Group: Steady at 0.25.

Goldman Sachs: Steady at 0.25. GS expects the BoC "to leave its forward guidance and asset purchase policies unchanged. Given the Bank's concern that asset purchases could distort market functioning, the bar for expanded asset purchases appears high, and they would likely require a substantial setback in activity data, likely accompanied by inadequate fiscal support or tightening financial conditions."

ING: Steady at 0.25. ING said encouraging jobs market data has signaled the economic "recovery is still maintaining a decent pace despite being more moderate now than the summer," while "provincial spreads are under control and it appears there is no hurry to deploy more monetary stimulus just yet." The MPR projections "will likely drive most of the market reaction, but still with the probabilities of further stimulus by the BoC being rather low, we doubt the impact on CAD will be sizeable."

JP Morgan: Steady at 0.25 -- through 2021. JPM expects the Bank to be "mildly encouraged" by last week's "business sentiment and underlying inflation, we forecast that it will maintain the low-for-long stance that it adopted in July and emphasize the need for continued stimulative monetary policy."

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National Bank Financial (NBF): Steady at 0.25. "With the economy still in need of stimulus, and with policymakers reluctant to bring their main tool into negative territory, we expect rates to remain at the effective lower bound. Turning to QE, the current C$5 billion weekly purchase pace is proportionally much more aggressive than what the U.S. Federal Reserve Board is doing."

- NBF said an announcement of when the program may begin to taper would not surprise them. "The central bank may also choose to wait for the Federal government's fiscal update this fall, which promises to set out not just a near-term deficit target but medium-term thinking on Ottawa's fiscal path."

NatWest: Rate steady at 0.25%, QE program unchanged. NatWest said the "balance of risks through the decision leans on the dovish side, and to the topside for USD/CAD." Though unlikely, NatWest said dovish risk "comes from QE policy. We see the argument to increase QE purchases at this meeting as much more compelling vs. prior meetings, for two reasons. First, an update to the Bank of Canada's forecast profile in the October MPR is likely to confirm a choppy, uneven recovery that likely merits a highly accommodative stance for the foreseeable future...Second, we think the BoC may embrace an opportunity to enhance the impact of upcoming fiscal stimulus via additional monetary stimulus."

RBC: Rate steady at 0.25%, QE and GoC bond purchases also unchanged. "Near-term GDP forecasts (Q3, 2020), or a central scenario—are likely to be upgraded, with Q3 at 31.3% annualized and 2020 at -7.8% in the July MPR. Our current forecasts are +45% and -5.9%, respectively. However, upgrades were very much flagged in the September meeting statement, which came just after the Q2 national accounts release."

- "Beyond that, a cautious outlook is likely to be evident, with the recent surge in Canadian COVID-19 cases and additional restrictions on economic activity to weigh on Q4 and beyond."

Scotiabank: Steady at 0.25 "until the second half of 2023 owing to the magnitude of the output gap, our forecasts for demand based on current and expected stimulus, our resulting forecast for inflation, and the Fed's move to average inflation targeting."

TD Securities: Steady at 0.25. TD expects the BoC to take a "cautious tone" given the negative effects of the COVID-19 virus on the economy and subsequent rise in cases going into the final quarter of 2020. TD does "not expect any change to forward guidance and do not believe negative rates are on the table, but YCC is a risk."

- "The MPR should feature an upgraded 2020 GDP forecast along with new analysis around potential GDP, while unconventional policy options will also get attention. We see more uncertainty around the outlook for QE. We don't want to infer much from the Bank's decision to scale back credit easing programs (sub-5yr CMB spreads were well below pre-recession levels). Our base case is for the Bank to continue with open-ended QE at $5bn per week, but we see a material risk that the BoC switches to a yield curve control regime."

UBS: Steady at 0.25.

Wells Fargo: Steady at 0.25.

MNI Policy

MNI PREVIEW: BOC Set To Hold Rates and QE on 2nd Covid Wave

By Greg Quinn

OTTAWA (MNI) - The Bank of Canada will likely affirm Wednesday that interest rates will stay near zero for years and press ahead with QE, as the economy's transition to what policymakers had called a long recuperation is threatened by a second wave of Covid-19.

Governor Tiff Macklem has pledged to keep up federal bond purchases of at least CAD5 billion a week until the economic recovery is well underway, and downside risks are rising with a second wave of the virus in Toronto, Montreal and Ottawa. Every economist in an MNI survey sees the official policy rate remaining at 0.25% in a decision due at 10am EST, and most see the pace of QE remaining unchanged. Macklem is also holding a press conference at 11am.

New health shutdowns make it even harder to hire back the nearly three-quarters of a million people laid off in the spring when the pandemic first hit Canada, and for firms to make new investments. While pressure for more monetary stimulus is less than in the U.S. because of generous government relief payouts, business groups warn of a wall of bankruptcies and a million households face the end of a six-month program to defer debt payments. Fourth-quarter growth is also seen sliding to around a 3% annualized pace that does little to curb the slack holding inflation at 0.5%. That will likely take the shine off a likely upgrade of the BOC's third quarter GDP growth estimate to about a 40% annualized pace, following a record decline of the same magnitude in the second quarter.

The BOC's in July forecast unchanged rates until inflation is sustainably back on its 2% target and didn't show price gains at that mark through 2022. Officials have also said QE will remain until the recovery is well underway, and establishing a solid growth trend seems far away in part because Statistics Canada doesn't report third-quarter GDP until Dec. 1.

"We expect the policy statement to maintain a cautious tone, reflecting the Bank's view for a drawn-out recovery and uncertainty around second wave of COVID, while noting that the recovery to date has been stronger than anticipated and flagging the supportive role of fiscal stimulus," according to a TD Bank economist report.

Strategists at National Bank Financial and CIBC say the BOC could tweak or scale back federal bond purchases to avoid taking over half the market and squeezing liquidity. Seven of 10 economists in a C.D. Howe Institute shadow council said QE should remain at the same pace, with the other three saying it should be slowed down.

The BOC has already moved to slim some of its other asset purchase programs earlier this month. It ended programs on mortgage bonds and bankers' acceptances while scaling back repo transactions to biweekly from weekly, saying financing conditions in those markets have eased. That may further shrink a balance sheet that leveled off since hitting a record of about CAD550 billion, in line with what sources have told MNI may be a medium-term shift to calibrate purchases and put the emphasis on a more "qualitative" easing.

Another reason it's hard to pull back on QE is political. Prime Minister Justin Trudeau is running the biggest deficit among major nations tracked by the IMF and rejects the idea of presenting a formal budget or a medium-term fiscal anchor, making the future supply of new government bonds uncertain. Trudeau's Liberals also have a minority government that could face a snap election in the next few months, and any new Parliament could bring another lurch in debt sales markets find hard to digest.

Macklem last month said it was far too soon to look at any real exit strategy and that even as the economy moved into a recuperation phase "we still have a very long way to go."

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