Bank of Canada Preview: September 2020

Details:

Monetary policy decision: 1000ET/1400GMT/1500CET, Wednesday 9, September 2020. Release of the interest rate announcement for the overnight rate target, including a short explanation of the factors influencing the decision. No Monetary Policy Report at this meeting -- updated economic forecasts will not be provided.
* Link to the Bank of Canada's website: https://www.bankofcanada.ca/
* Governor Macklem will deliver a progress report Thursday at 1230ET (virtual press conf at 1345ET) titled "The uneven effects of COVID-19 on different sectors and people in the economy".
* Note: 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).

Point of View (POV) **BOC REMAINS ON 0.25% TARGET**

For all intents and purposes, the Bank of Canada is expected to keep its target rate on hold at 0.25% Wednesday, QE program and forward guidance unchanged as well.
- **Base Case:** Steady with approximately 85% of analysts seeing no change in rate into 2023. Despite a slight drop-off in use, commitment to C$5B/wk bond purchase program is expected "until the recovery is well underway." Scotiabank posits Governor Macklem could "emphasize or jawbone a more concerted effort toward convincing markets that 2% is an average target accompanied by overshooting periods and not a ceiling."
- **Dovish:** Cutting the target rate to negative levels remains a non-starter while other tools remain: yield curve control, lending to financial institutions under condition "they lend it to people and businesses, the BOC said.
- **Hawkish:** While several analysts appear cautiously upbeat after strong GDP gains this summer, raising rates remains a non-option for the next couple years.

mni Central Bank Watch - Bank of Canada

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	0.1	-0.2	↑	2.4	↓					-1.85
Core CPI - Median	% y/y	1.9	2.0	↓	2.1	↓					-0.72
Industrial Product Price	% m/m	0.7	-2.4	↑	-0.3	↑					0.87
Breakeven 10-Year	%	1.26	0.75	↑	1.32	↓					0.97
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	55.1	40.6	↑	51.8	↑					1.04
GDP	% m/m	6.5	-7.4	↑	0.3	↑					1.24
Manufacturing Sales	% m/m	20.73	-10.20	↑	-0.75	↑					1.50
Trade Balance	CAD bn	-2.45	-4.90	↑	-2.08	↓					-0.04
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	15.97	13.07	↑	8.49	↑					2.29
Bank Lending Survey (Q)	% m/m	19.16	7.69	↑	-15.62	↑					1.81
New House Prices	% m/m	0.4	0.0	↑	0.0	↑					1.29
Housing Starts	K	245.6	164.9	↑	218.0	↑					1.75
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	23.7	-10.0	↑	0.7	↑					1.41
Retail sales Ex-Autos	% m/m	15.8	0.0	↑	1.4	↑					1.37
Employment Chge m/m	K	245.8	289.6	↓	30.3	↑					0.40
Ave Hourly Wage Rate	% y/y	6.00	9.96	↓	4.33	↑					-0.31
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	15964	15193	↑	16263	↓					0.63
Canadian 10-Year Yield	%	0.55	0.53	↑	1.13	↓					-0.34
CAD Yield Curve (2s-10s)	bps	28.8	24.4	↑	-2.3	↑					1.05
CAD TWI	Index	118.73	114.53	↑	117.67	↑					1.33

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

Analyst Views

* **Bank of America**: Steady at 0.25. BoA economists say the BOC "remains firmly on hold at a very accommodative level and intends to remain that way until the 2% inflation target is sustainably achieved, which we do not expect in the foreseeable future, standing ready to step up QE if adverse conditions warrant it. But the economy is recovering faster than the central bank anticipated and in practice QE is no longer being provided by the BoC, which would give a relatively upbeat tone to the statement."

* **Bank of Montreal**: Steady at 0.25. Negative rates remain a non-option, Chief Economist Doug Porter posits the BoC "will attempt something unconventional to support the recovery (beyond what they have already done)."

* **Barclays:** Steady at 0.25. BOC

* **CIBC Capital Markets:** Steady at 0.25. Chief economist Avery Shenfeld said BoC's prior statement weighed in "with a warning about an appreciating exchange rate. The Bank has no room cut interest rates to weaken the exchange rate, more QE won't mean much to FX markets. Best opportunity to steer the C$ weaker will be further out, if it can convince markets that it could lag a step or two behind the Fed. While we don't see it materially changing its behavior, moving to an 'inflation averaging' target in 2022 could help send a signal that it too can be patient in raising rates, particularly if the loonie decides to stay aloft."

* **Citigroup**: Steady at 0.25.

* **Goldman Sachs**: Steady at 0.25. "Combined with the BoC's forward guidance, the possibility that the BoC will adopt flexibly average inflation targeting supports our view that the BoC will not hike rates through 2023."

* **HSBC:** Steady at 0.25.

* **ING**: Steady at 0.25. The BoC's "lack of enthusiasm for negative rates" and current low inflation, "will likely trend gradually higher, thus moving into the lower range of the [Bank's] preferred 1-3% range."

* **JP Morgan:** Steady at 0.25 -- through 2021. JP Morgan does not "expect the latest labor market report will have any implications for the current policy stance. The Bank moved to outcome-based forward guidance in July—a hike in the policy rate is explicitly pinned to economic conditions and the inflation outcome."

* **Laurentian Bank Securities**: Steady at 0.25. "The current QE purchases are efficient in fostering market functioning and helping the recovery. Also, the new governor just put in place forward guidance tied to the 2% inflation target. Thus, using unconventional tools in the next 12 months will depend on the path of the recovery tied to our ability to control the virus. Under a positive scenario, the BoC is likely to carry on with a moderate pace of asset purchases. Under a severe scenario, the lending for credit tool could be useful to allow credit activity. The ECB lent at negative rates to banks earlier this summer, conditional on banks passing on to households and business loans."

* **Morgan Stanley:** Steady at 0.25. "We expect the BoC to maintain its current stance on interest rates, forward guidance and asset purchases at its September meeting."

* **National Bank Financial (NBF):** Steady at 0.25. "With policymakers reluctant to bring their main tool into negative territory, we expect rates to remain at the effective lower bound. Turning to QE, although the Bank may acknowledge a deceleration in the pace of its purchases, it is still likely to reaffirm its commitment to buy large amounts of government bonds 'until the economic recovery is well underway'."

* **NatWest:** Steady at 0.25. NatWest suspects the "BoC sees benefit in waiting for the October meeting and MPR forecast before considering any adjustments ... and do not expect a major reaction in the CAD as a result." NatWest anticipates the BoC "will continue to suggest cautious optimism about the ongoing economic recovery. The Bank

noted in its July MPR that the plunge in overall activity, estimated to put GDP 15% below end-2019 levels by 2Q, 'was considerably less severe than the worst scenarios presented in the April MPR'."

* **RBC:** Steady at 0.25. Cautiously optimistic, RBC cites "better output numbers (-38.7% annualized in Q2, strong June/July GDP gains) and more fiscal support. However, it will likely be accompanied by caution on the still elevated degree of slack, long road to full recovery and remaining risks. The latter includes how COVID-19 evolves in flu season and as schools re-open, as well as the impact of mortgage deferrals coming due later this year. Any talk of purchase tapering certainly would be premature and we think it is unlikely any time this year."

* **Scotiabank**: Steady at 0.25. "Material changes to policy measures are not expected at this meeting but guidance may be important across several fronts. The statement itself is likely to repeat the line about "As the economy moves from reopening to recuperation, it will continue to require extraordinary monetary policy support."
- Scotiabank said while the BoC's purchase programs "have stalled somewhat..." the BoC may be "teeing up an eventual move toward substituting yield caps for purchase volumes. If the BoC goes down this route, then a shorter- to medium-term target is much more likely and one that goes out to 3s or the key 5s part of the curve that matters to fixed rate mortgages."
- Warming to inflation overshoot after Sr Deputy Gov Wilkins intimated some openness to inflation overshoot at Jackson Hole symposium. While the "inflation Renewal agreement already references the symmetry of the 2% inflation goal. Macklem could emphasize or jawbone a more concerted effort toward convincing markets that 2% is an average target accompanied by overshooting periods and not a ceiling."

* **TD Securities**: Steady at 0.25. "No scope for a change in rates, leaving the focus on the statement tone and other policy tools. Data has been upbeat since July, leaving GDP tracking well above MPR estimates. This weakens the immediate argument for YCC but we could see tweaks to the BoC's credit programs after a decline in usage. Forward guidance to remain unchanged."

* **Toronto Dominion:** Steady at 0.25.

* **UBS:** Steady at 0.25.

* **Wells Fargo:** Steady at 0.25.

MNI Policy

MNI PREVIEW: BOC to Continue QE, Hold Record Low 0.25% Rate

By Greg Quinn

OTTAWA (MNI) - Canada's central bank will likely stress the economy is fragile and well below potential after the successful Covid-19 re-opening, while underlining commitments to hold a 0.25% interest rate and buy at least CAD5 billion a week of federal bonds in a policy decision Wednesday.

Partial rebounds in output, jobs and exports give the Bank of Canada scope to upgrade its July "central planning scenario" for GDP to plunge 7.8% this year, market analysts predict, with BMO Capital Markets and TD Securities saying the decline may be less awful at around 6%.

For a year of unprecedented surprise actions, this meeting's backdrop is an economy stabilizing after the record 39% annualized Q2 contraction and settling into a slog back to normal amid the risk of another coronavirus wave. The BOC will hold back on optimism with unemployment above 10%, exports to the U.S. in doubt and consumer spending threatened by the government's scaling back relief checks and moving to end 6-month deferments on mortgage payments.

The BOC in July signaled frozen rates into 2023, pledging a hold until inflation was "sustainably achieved" at its 2% target and forecasting that that wouldn't happen through the end of 2022. The latest CPI figures give little scope for an upgrade, with the headline reading at 0.1% year-over-year and core rates running as low as 1.3%.

- PLENTY OF MAKE-UP

"The key for the Bank of Canada will be to reinforce that policy will remain extremely accommodative for some time yet," Benjamin Reitzes, a strategist at BMO Capital Markets, wrote in a research note. Output will still be down as much as 4% by year-end, still bigger than worst of the global financial crisis, "so even with the better backdrop, there will be plenty of ground to make up in 2021, necessitating ongoing monetary policy support," he said.

The bigger job of reassessing how much spare capacity is left will have to come later, making much fine tuning of the outlook unlikely, former BOC adviser Steve Ambler told MNI. Without a change of view on the output gap, there's little reason for the central bank to shift its commitment on QE "until the recovery is well underway."

The BOC will also likely push any potential embrace of yield curve control until the October meeting that comes with a full economic forecast, former BOC senior market analyst and TD Securities Chief Canada Strategist Andrew Kelvin told MNI. With Governor Tiff Macklem ruling out negative interest rates, curve control or at least stronger QE may be needed if the economy buckles again.

Even with a strong re-opening, Macklem has stressed the economy is in a "deep hole" and also faces a headwind from the sustained downturn in Canada's energy industry.

The one-page statement is due at 10am EST Wednesday and all 11 economists surveyed by MNI expect the overnight rate target to remain unchanged. Investors may look for an upgrade to the BOC's Q3 growth estimate of 31% given in July, with several market economists seeing 40% growth instead.

Key phrases from the last statement to watch for again:
"The Bank stands ready to adjust its programs if market conditions warrant."

"The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved."

"This QE program is making borrowing more affordable for households and businesses and will continue until the recovery is well underway."