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Bank of Canada keeps rates unchanged, and options open

The BoC kept rates at 2.25% as widely expected today. Despite major uncertainty, the bank remains explicitly content with this rate level, and we don't currently forecast any change by year-end. However, options remain open, and the risks appear slightly on the dovish side. We see upside potential for USD/CAD

Bank of Canada Governor Tiff Macklem

BoC fine with current rate

The Bank of Canada has held its target for the overnight rate at 2.25%, as widely expected. After peaking at 5% in 2024, the BoC has cut rates 275bp, but they've left policy unchanged since their last cut in late October 2025. The commentary around the decision suggests that after a relatively large series of moves, a more stable global and domestic macro backdrop is allowing them to pause and reflect on where the future risks may lie.

They acknowledge the challenges posed by "unpredictable US trade policies", with US dollar weakening posing an added headwind for Canadian exporters. The elevated unemployment rate of 6.8% and the lack of evidence of a pick-up in hiring is also a concern. Nonetheless, the stronger domestic growth story has been a positive development. Given this situation, they forecast 1.1% GDP growth in 2026 and 1.5% in 2027, which is broadly in line with how they saw things back in October.

Regarding inflation, they see underlying price pressures (ignoring tax-related base effects) as being in line with the 2% target with trade-related price pressures being offset by excess supply. As such, the BoC views the current policy stance as being "appropriate".

Very slight hint on the dovish side

Given the level of uncertainty surrounding the economy and ongoing threats of an escalation in trade tensions, particularly with the USMCA trade deal up for joint review in July, they indicate a slight hint of bias towards the potential for a further rate cut.

Markets don't expect it, pricing perhaps 4bp of a possible 25bp cut by June. We are also not forecasting another cut, but would suggest that the risks of a move are higher than implied by market pricing.

Muted market reaction, USD story dominates

The reaction in USD/CAD was quite contained. The BoC is leaving options on the table, and we wouldn't be shocked by another cut this year, but there is simply not enough in communication to steer market pricing decisively at this point.

Anyway, USD/CAD remains overwhelmingly driven by the USD leg. We aren't convinced in following the selloff in USD much further, and in our view short-term risks are tilted on the upside for USD/CAD. Potentially rocky USMCA negotiations ahead are a key reason why we think CAD remains more vulnerable than other G10 currencies. Our tactical view is a return above 1.370 in the pair.

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