Bank of Canada pause shouldn't last long

The BoC kept rates on hold today, and gave very little guidance in light of elevated trade uncertainty. However, the bias remains on the dovish side, and we expect the negative growth impact from US tariffs will lead to two more rate cuts, in June and July. That can limit CAD gains, although the USD's idiosyncratic weakness should put a cap on USD/CAD

The Bank of Canada left rates unchanged but we expect rate cuts in June and July

A great focus on uncertainty by the BoC

The Bank of Canada has left its policy interest rate unchanged at 2.75% despite CPI coming in softer yesterday and anxiety over the economic impact from tariffs. The market had been pricing around a one-third chance of a 25bp cut while economists saw it closer to being a coin toss with 15 banks, including ourselves, favouring 'no change' and 14 expecting a 25bp cut. Our belief was that the tariff carve-out for USMCA compliant products mitigates to some extent in the near-term while the proximity to next week's election also probably played a role in the BoC choosing to keep some ammunition back.

The accompanying press release states that tariffs have "increased uncertainty, diminished prospects for economic growth, and raised inflation expectations". This makes it very challenging to come up with forecasts. They have a range of scenarios where on one extreme there is a limited tariff environment that temporarily weakens growth and inflation stays close to 2%. The other extreme of an all-out protracted trade war that leads to a deep recession with inflation rising above 3%.

No guidance, but we expect more cuts

There is no guidance from the BoC given such an uncertain period lies ahead. The BoC merely state that "our focus will be on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval." The BoC have already cut rates from 5.0% down to 2.75% with the BoC most recently cutting 25bp in January and March.

Further cuts are coming though as risks are skewed towards weaker growth while the removal of the carbon consumption tax will depress inflation over the coming year. This will help to mitigate the effects of higher imposed tariffs on American products and allow 25bp cuts at the next two BoC policy meetings in June and July.

CAD curve can steepen further

Market pricing for future BoC moves will follow very closely trade news in the coming weeks. Anyway, by the June meeting, data will have given some clarity about the tariff impact.

The OIS curve is pricing in roughly 16bp for June, and 50bp by the end of the year. If we are right with our view that the BoC will frontload easing in June and July, we expect to see some steepening in the CAD curve as front-end yields remain compressed while the long-end can remain affected by further underperformance in US Treasuries.

The net impact on CAD should be negative, although probably spread out over the next few months. We are not convinced the idiosyncratic pressure on USD is due to be unwound soon (more on our latest monthly FX report), so we still think USD/CAD will attract buyers around 1.40.

Our new USD/CAD forecasts

	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
USD/CAD	1.39	1.40	1.39	1.38	1.37	1.37	1.36

Source: ING

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