

## Bank of Canada retains its hawkish bias

The BoC kept rates unchanged as expected, but had to recognise that rates are “clearly restraining spending” and that disinflation is happening at a faster pace. However, that was not enough to drop the threat of another hike if necessary. While this is generally good news for CAD, external factors (US data in particular) remain much more relevant



Bank of Canada building in Ottawa

### Sticking to the tightening threat

The Bank of Canada kept rates unchanged at 5.0% today, as widely expected. The policy statement noted that “higher interest rates are clearly restraining spending: consumption growth in the last two quarters was close to zero, and business investment has been volatile but essentially flat over the past year”. Incidentally, the BoC recognised the faster pace on the disinflation front, dropping the reference to “slow” progress on inflation.

Those considerations would have likely led to a more dovish tone on the policy outlook as a consequence, but the BoC decided to reiterate the threat of more monetary policy tightening instead: “Governing Council is still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed”. The concerns about the inflation outlook come not only from potential external shocks (e.g. energy prices), but also from a resiliently tight

domestic labour market, as confirmed by last week's strong jobs figures.

We are still convinced that the BoC will not tighten policy further given the deterioration of the economic outlook and our expectations for a steady decline in Canadian's inflation. However, there is a likely intent to fight the ongoing dovish repricing of rate expectations in Canada, and that means the BoC out-of-meeting commentary may be careful to send dovish messages to the market before the January meeting, when new economic projections will be released.

## CAD still too reliant on US data

From a market perspective, the reiteration of the hawkish bias by the Bank of Canada is positive news for CAD, although the acknowledgement of faster inflation decline and the strong impact of tight monetary conditions on the economy have offset the impact on the loonie, which is holding steady after the announcement.

Despite the BoC's reluctance to pivot to a more dovish stance, the loonie remains highly affected from a deterioration in US data, to which it has the highest correlation in G10. In the short term, the last bits of evidence of US activity resilience may support CAD – especially in the crosses – but we expect the worsening of US (as well as Canadian) growth sentiment next year to make CAD less appealing than other risk-sensitive currencies like the antipodeans and Scandies.

### Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.