

Bank of Canada cuts rates again, but signals the end is approaching

The BoC cut its policy rate by 25bp, bringing the cumulative reduction to 275bp since June 2024. It signalled that the new policy stance is “about right” but risks are skewed toward more action in 2026. This warns against getting excited about a CAD recovery versus most other G10 currencies, also considering the risks of further deterioration in trade news



Tiff Macklem, Governor of the Bank of Canada, and Senior Deputy Governor Carolyn Rogers at today's press conference

A hawkish cut

As widely anticipated, the Bank of Canada cut its policy rate by a further 25bp to 2.25%, citing “US trade actions and related uncertainty” that are “having severe effects on targeted sectors including autos, steel, aluminium, and lumber”. GDP contracted 1.6% in the second quarter of this year, and “growth is expected to be weak in the second half of the year” as well.

The central bank acknowledges that government support is coming, but the jobs market “remains soft” with the unemployment rate at a four-year high of 7.1%. The growth outlook is predicted to remain subdued in its forecasts, with the economy projected to expand 1.2% this year, 1.1% next

year and 1.6% in 2027, versus Bloomberg consensus projections of 1.2%, 1.2% and 1.9% respectively.

Inflation has come in a little higher than the Bank predicted a few months ago, but given the issues surrounding economic activity – remember three quarters of Canada’s exports go to the US and the Canadian consumer is amongst the most indebted between developed market peers – inflation is expected to “ease in the months ahead”.

After 275bp of rate cuts, the BoC now believes that the current policy rate is “at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment”. This suggests that it will likely hold rates steady at the next policy meeting in December – but given the acknowledgement of the “difficult transition” the economy is facing, the risks remain skewed towards at least one additional cut in early 2026. Currently, the market is pricing a 50-50 chance of such action by April.

CAD: Flimsy recovery

The Canadian dollar was not hugely impacted by today's decision. USD/CAD has broadly followed the US dollar's daily moves today, with only a modest bullish CAD addition following the BoC's announcement.

The loonie has shown good resilience to negative US-Canada trade news, and a cautious stance from the BoC on further easing has underpinned its decent momentum. Nevertheless, downside risks for CAD remain substantial, as further deterioration in trade relationships and/or economic data can prompt more dovish bets on the BoC, given that it has failed to shut the door to more easing.

Our target remains 1.38 for USD/CAD year-end, but that mirrors USD weakness rather than CAD strength. Instead, we see more upside potential for EUR/CAD and, in general, other G10 currencies versus the loonie.

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