Today’s Bank of Canada cut shouldn’t be the last one

The BoC cut the policy rate by 25bp to 2.50% today, in line with expectations. Despite no forward guidance, policymakers are keeping their options open, and the assessment on inflation, growth and labour market points to another 4Q cut. We expect it in December, but cannot exclude October and even further easing beyond that. CAD should remain unattractive

Tiff Macklem, governor of the Bank of Canada

The Bank of Canada delivered a widely expected 25bp rate cut today, adding very little in terms of forward guidance. With the policy rate at 2.50%, a full 175bp above the Fed’s, assuming a 25bp rate cut in the US later today, it’s understandable that the BoC is not willing to commit to more easing, but the overall assessment of economic and inflation risks suggests this is not the last cut of the cycle.

A negative macro assessment

On inflation, Governor Tiff Macklem noted that Canada’s decision to lift some retaliatory tariffs against the US has reduced price pressure, and that “recent data suggest the upward pressures on underlying inflation have diminished”.

On growth, the picture remains grim, with the BoC outlining the different sectorial negative impact of tariffs today and reporting that many businesses have paused investment plans due to uncertainty.

The jobs market deterioration remains, in our view, the most compelling argument for cutting more at this stage. The BoC is expecting job losses to spill into softer household spending in the coming months, erasing the resilience in consumption numbers seen of late. Crucially, the BoC is highlighting that, aside from "significant" job losses in US trade-sensitive sectors, there has been a considerable slowdown in hiring in other sectors.

Another cut in December, risks on the dovish side

Despite a relative quiet period in US-Canada trade news, the (probably rocky) USMCA renegotiation is up next. Remember that is the agreement that is preventing Canada from facing the worst of reciprocal US tariffs, and any threat of the US withdrawing from the deal can significantly add to business uncertainty and further harm the jobs market.

We think the conditions for another cut in December are all there, with risks skewed to an even earlier move in October. For now, we see that as the last cut of the cycle, but we cannot fully rule out more easing at this stage given lingering trade-associated risks.

CAD to stay weak in the crosses

Markets are pricing in 13bp for October, 21bp for December and no more cuts afterwards. We think risks are on the dovish side relative to this pricing, even if it currently matches our baseline forecast.

We have been on the bearish side of CAD against most of G10 currencies and we retain that view, even though USD weakness should keep USD/CAD upside capped.

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