

Bank of Canada hikes and signals more to come

Depending on how Nafta talks pan out over the next few months, it looks like the Bank of Canada could follow today's rate rise with another before year-end



Source: Bank of Canada

As was largely expected, the Bank of Canada resumed its tightening cycle on Wednesday with its first rate hike since January. But the big question going into this meeting was how policymakers would view the recent flare-up in trade tensions.

Well, although the statement is littered with references to tariffs – the word “trade” appears no less than six times – the message appears to be one of cautious optimism. Interestingly, it expects the impact of the steel/aluminium tariffs to be “modest” and still expects growth to average around 2% over the next couple of years. It also remains fairly upbeat about investment, despite trade concerns weighing “in some sectors”.

1.5% New Bank of Canada rate

So with most core inflation measures now back around 2%, we suspect the Bank of Canada could strike again later this year – though it's clear this is highly contingent on Nafta talks. Negotiations have noticeably stalled over the past month-or-so and it looks like talks could stretch beyond the US mid-term elections in November. This would mean a more prolonged period of uncertainty for Canadian firms. But on the flip-side, as long as the actual trade situation remains unchanged, Canada will continue to reap the rewards of an exceptionally strong US economy.

At this stage, we are forecasting another rate hike in the fourth quarter, although any breakdown in Nafta talks, or implementation of further tariffs, could easily change that.

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