

Bank of Canada hits bottom

The Bank of Canada has cut rates 50bp to 0.25% and announced a C\$5bn+/week QE programme in another unscheduled announcement



Bank of Canada
Governor Stephen
Poloz

The Bank of Canada has cut its policy rate by 50bp to 0.25% – “its effective lower bound” according to the accompanying statement. It will also be starting its first-ever quantitative easing (QE) programme, with the central bank purchasing “a minimum of C\$5bn per week, across the yield curve”. This is open ended and can be adjusted as required. The Bank is also launching a commercial paper purchase programme “to help alleviate strains in short-term funding markets and thereby preserve a key source of funding for business”. In the press conference Governor Poloz stated that today’s moves are primarily about easing strains in financial markets that have seen an effective freeze in the commercial paper market.

This aggressive response was increasingly expected given the moves seen by other central banks around the world and the financial market tensions. Moreover, Canada is heavily exposed to the global downturn given nearly a third of economic activity is tied to global trade while the plunge in commodity prices compounds the problems for Canada’s economy. This poses huge risks for employment and investment, particularly in the oil and gas industries.

The Bank also cites the substantial fiscal package announced by the government, but we have to remember that all of these measures are about damage control. Recession is unavoidable given the huge changes to regular daily life, the shuttering of numerous businesses and the dislocations in financial and credit markets in response to the Covid-19 crisis.

In the subsequent press conference, Governor Poloz doesn't rule out the potential use of negative interest rates despite the statement saying the BoC is at the "effective lower bound". They are in the "tool kit", but given the hit it would cause to banks and its dubious success in Europe it is not being seriously considered. We don't think it will happen with the BoC adjusting the pace of QE and the range of assets purchases as the main avenue for more stimulus.

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