

Bank of Canada pauses for breath amidst NAFTA uncertainty

The Bank of Canada has kept rates on hold, and a cautious statement with explicit reference to NAFTA uncertainty says the next rate hike could still be quite a few months off



Source: Bank of Canada

1%

Canada interest rate

No change

As expected

As we expected, the Bank of Canada (BoC) has paused its hiking cycle at the latest meeting, keeping rates unchanged at 1%. With growth looking as if it has begun to moderate in 2H17, it does not come as complete a surprise that the BoC have decided to adopt a 'wait and see' approach to monetary policy.

Until the picture gets clearer, the Bank is likely to tread carefully.

But our main takeaway from this meeting was the fact that for the first time, the Bank has explicitly cited NAFTA renegotiation as a “substantial uncertainty”, having previously only indirectly acknowledged this with subtle hints. There are further negotiations scheduled for mid-November with a view to having the talks wrapped up by early next year. Until the picture gets clearer, the Bank is likely to tread carefully.

However, the BoC are still pretty optimistic on growth and inflation, so that says further rate hikes are to come. Inflation is edging up towards the BoC's 2% target, although given the stronger Canadian dollar and potential for steadier consumption growth (in light of housing policy changes and higher interest rates), the Bank now expects inflation to reach target slightly later than initially thought towards the end of 2018.

This cautious statement has led markets to push back their 2018 rate hike expectations to March and September. Whilst this could still prove to be a touch optimistic, on the assumption that NAFTA does not fall apart, we still see the Bank of Canada hiking twice in next year.

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