

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.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.