

Bullish Bank of Canada hikes rates again

25 basis point jump, but future risks highlighted



1% Canada interest rate
Up 25 bp

With back to back 25bp rate hikes, the Bank of Canada has fully reversed the 2015 policy easing that was spurred by the downturn in commodity prices. How quickly times change. It was just three months ago the Bank's officials were sounding relaxed about the monetary policy stance, suggesting that there was no hurry to raise rates. But a swift change of tone was followed by a July rate hike and they have now decided to follow up with a further 25bp hike, taking the policy rate back to 1%.

This fully reverses the policy easing the BoC implemented in response to a downturn in commodity prices in 2015

The accompanying text justifies today's action on the basis that *"economic data have been stronger than expected"* with growth *"becoming more broad based and self-sustaining"*. They also point to a *"more synchronous"* global growth story, which is supporting exports and encouraging investment. Nonetheless, they also cite threats. Growth is expected to moderate in 2H17 from the robust rates seen in recent quarters, but there are concerns about geopolitics, CAD strength and trade "uncertainties" – presumably President Trump related. Consequently, the BoC suggest the policy path is not *"pre-determined and will be guided by incoming data"*. Moreover, *"given elevated household indebtedness, close attention will be paid to the sensitivity of the economy to higher interest rates"*.

With inflation well below target at 1.2%, which the BoC acknowledge, we suspect there will be a pause in monetary policy to see how the situation develops. We suspect the policy rate will remain at 1% through to year end with two further rate hikes in 2018.

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