

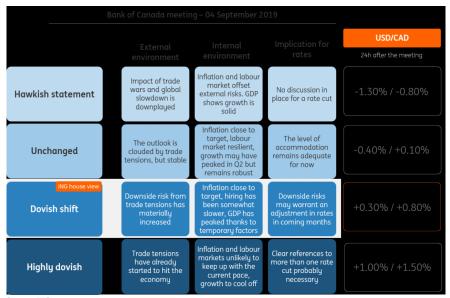
Snap | 4 September 2019

How will the Bank of Canada meeting impact the Canadian dollar?

As the Bank of Canada announces monetary policy at 15:00 BST today, we look at four possible scenarios and the implications for the loonie. We see room for a dovish shift, that should pave the way for a cut in October and may trigger a break above 1.34 in USD/CAD



Snap | 4 September 2019



Source: ING

In the past few weeks, the markets have increased their bets on a dovish turn by the Bank of Canada, in line with rising trade tensions which inevitably pose a threat to the open and commodity-dependent Canadian economy. We have recently changed our call for the BoC and now expect a one-off quarter-point rate cut in October.

The OIS curve is showing that one 25 basis point cut is priced in by the end of the year. A rate cut today seems completely off the table and markets are only attaching around a 55% probability that a cut will come in October, suggesting most investors expect the move in the last meeting of the year (December).

In terms of implications for USD/CAD in the aftermath of the announcement today, we suspect that an unchanged message from the July meeting may disappoint markets' dovish expectations and likely trigger an uptick in Canadian rates and the loonie. However, a dovish shift - which we see as more likely - should prompt investors to bring forward their expectations for a cut from December to October and possibly pencil in more cuts for 2020 (currently, 25bp of easing in the OIS curve by 4Q20). This may result in some downward pressure on rates and USD/CAD may break the 1.3400 level.

In the longer-term, we maintain a positive view on the Canadian dollar (for more details, <u>see our latest FX Talking</u>) and notwithstanding a dovish turn by the BoC, we still do not exclude USD/CAD to explore the area below 1.30 in early-2020.

Snap | 4 September 2019

Author

Francesco Pesole

FX Strategist

francesco.pesole@inq.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 www.ing.com.

Snap | 4 September 2019