

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



Bank of Canada meeting – 04 September 2019				USD/CAD
	External environment	Internal environment	Implication for rates	24h after the meeting
Hawkish statement	Impact of trade wars and global slowdown is downplayed	Inflation and labour market offset external risks. GDP shows growth is solid	No discussion in place for a rate cut	-1.30% / -0.80%
Unchanged	The outlook is clouded by trade tensions, but stable	Inflation close to target, labour market resilient, growth may have peaked in Q2 but remains robust	The level of accommodation remains adequate for now	-0.40% / +0.10%
Dovish shift <small>ING house view</small>	Downside risk from trade tensions has materially increased	Inflation close to target, hiring has been somewhat slower, GDP has peaked thanks to temporary factors	Downside risks may warrant an adjustment in rates in coming months	+0.30% / +0.80%
Highly dovish	Trade tensions have already started to hit the economy	Inflation and labour markets unlikely to keep up with the current pace, growth to cool off	Clear references to more than one rate cut probably necessary	+1.00% / +1.50%

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, [see our latest FX Talking](#)) 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.

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