

Tariffs and NAFTA keep Bank of Canada on hold

As expected, the Bank of Canada has held its policy rate at 1.25% amidst NAFTA uncertainty and the introduction of new US import tariffs



Source: Bank of Canada

1.25% Bank of Canada policy rate

As expected

The big question going into today's Bank of Canada meeting was whether policymakers would acknowledge the latest developments on trade, following President Trump's recent threat to impose import tariffs on steel and aluminium. With no further official announcement or details on the tariffs, it was always going to be tricky for the Bank of Canada to make explicit reference to them in their statement at this stage.

However, the Bank said “trade policy developments are an important and growing source of uncertainty” for both the Canadian and global outlook, implying that the tariffs certainly factored into this month’s decision.

Currently, the US is the destination for 86% of Canada’s steel exports and 88% of its aluminium exports. These new developments have led to threats of retaliation from Canada and Mexico, and will also add further pressure to NAFTA talks.

The seventh round of NAFTA negotiations ended on a mixed note. The US trade representative Robert Lighthizer showed his frustration by saying that the talks have not made the progress that many had hoped for in this round, going on to say that only six of the 30 NAFTA chapters have been closed.

The clock is ticking, with Mexican elections due to take place on 1 July, Ontario and Quebec scheduling elections later this year and US mid-term elections coming up in November. It was hoped that NAFTA negotiations would be wrapped up by the end of the eighth round of talks in April, but this is looking increasingly unlikely.

Until the NAFTA/tariff storm begins to blow over, we think the Bank will remain cautious. The latest mixed flow of economic data also takes some of the pressure off policymakers to act. But assuming the protectionist cloud begins to blow over later in the year, and core inflation continues to “edge up”, we expect the Bank of Canada to recommence its tightening cycle in the second half of the 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 www.ing.com.