

Bank of Canada Rate Announcement

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Nothing new was revealed about the possible future stance of the Bank of Canada's policy interest rates in today's rate announcement which saw the overnight interest rate remain at 1.75 per cent.

At its last announcement in October, the Bank stated that future interest rate decisions would be guided by the impact of trade conflicts on the economy and the performance of consumer spending and housing activity, with a nod to fiscal policy developments. It was a repeat performance this morning. It was universally expected that the Bank of Canada would hold the overnight target rate at 1.75 per cent following today's announcement, so the focus had been on any hint of forward guidance on rates.

The Bank of Canada is one of only a handful of central banks which have not adjusted their policy rates in response to trade tensions, slowing growth, and heightened business uncertainty. Somewhat counter-intuitively, and despite Brexit, the Bank of England is another one. Most notably, the U.S. Federal Reserve has cut its policy rate three times since July, and interestingly, the Canadian dollar did not appreciate against the U.S. dollar.

Today's announcement was not accompanied by an economic forecast. This occurs quarterly with the *Monetary Policy Report* and is scheduled for January 2020. The Bank briefly reviewed recent economic developments and will continue to closely monitor the economy, trade and fiscal policies, and financial vulnerabilities related to the household sector.

The Bank's interest rate stance going forward is dependent on how the economy evolves and changes to trade and fiscal policy. Based on its October forecasts, the Canadian economy will continue to grow below potential in the fourth quarter of 2019 and at potential in 2020. This results in a slightly larger amount of excess capacity than currently exists.

Our expectation is for no rate change at the Bank's announcement in January. While we are data and policy dependent along with the Bank, our expectation is for a rate cut to play out before mid-2020.

The next rate announcement is January 22, 2020.

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Terms

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