

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

Speeding towards Neutral

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ACCORDING TO THE BOC

- ▶ The BoC announced an increase in the target overnight interest rate from 1.00% to 1.50% today.
- ▶ The statement noted that officials could act “more forcefully if needed” which opens the door to a 75bp increase at an upcoming meeting.
- ▶ Quantitative tightening continues to operate in the background, and is tightening policy, albeit at a slow pace.

IMPLICATIONS

Expect another 50bp hike in July, which would take the overnight rate to 2%. After that, we see the potential for a subsequent standard 25bp move in September. That would take the overnight rate to within the Bank of Canada’s estimated neutral range of between 2% and 3%.

The Bank of Canada will probably have to pause its hiking cycle ahead of many other peers, given the Canadian economy’s sensitivity to higher rates. However, for the next few months, central bankers will be in full rate hiking mode.

COMMENTS

The Bank of Canada is sticking in the fast lane in its drive towards normalizing monetary policy. The 50bp rate increase unleashed today cements this hiking cycle as the fastest in the inflation targeting era. But extraordinary times call for extraordinary measures. Central bankers are now more attuned to the overheating in the Canadian economy which is driving at least some of the excess inflation. Remember that this is the type of inflation the Bank of Canada can use their tools to control.

The statement today noted that officials could act “more forcefully if needed” which clearly opens the door to a 75bp move at the upcoming July announcement date. However, we don’t think the data will justify such a move with the housing market already reacting negatively to higher rates.

Quantitative tightening is still operating in the background but will tighten policy at a slow pace. In June less than 1% of the Bank of Canada’s Government of Canada bond holdings will mature and roll off its balance sheet. In July there are no sovereign bonds maturing. As a result, central bankers will be focused on tightening financial conditions via a higher policy rate in the next few months.

Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
February			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
March			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	s.q.	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	s.q.	-0.75
April			
5	Reserve Bank of Australia	s.q.	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Bank of Sweden	+25 b.p.	0.25
May			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
June			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia		
9	European Central Bank		
15	Bank of Brazil		
15	Federal Reserve		
16	Bank of England		
16	Bank of Japan		
16	Swiss National Bank		
23	Bank of Norway		
23	Bank of Mexico		
30	Bank of Sweden		

Date	Central banks	Decision	Rate
July			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
20	Bank of Japan		
21	European Central Bank		
27	Federal Reserve		
August			
2	Reserve Bank of Australia		
3	Bank of Brazil		
4	Bank of England		
11	Bank of Mexico		
16	Reserve Bank of New Zealand		
18	Bank of Norway		
24	Bank of Korea		
September			
6	Reserve Bank of Australia		
7	Bank of Canada		
8	European Central Bank		
15	Bank of England		
20	Bank of Sweden		
21	Bank of Brazil		
21	Bank of Japan		
21	Federal Reserve		
22	Bank of Norway		
22	Swiss National Bank		
29	Bank of Mexico		
October			
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
13	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
November			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
24	Bank of Sweden		
December			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
19	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * Monetary Policy Report published.