WEEKLY COMMENTARY

Bank of Canada Preview: (Mis)Guiding Markets

By Royce Mendes, Managing Director and Head of Macro Strategy

The Bank of Canada's last policy rate announcement sparked a sharp selloff in fixed income. In all likelihood, central bankers didn't intend for the market to price in almost two and a half rate hikes, but that was the consequence of the illustrative high oil price scenario presented in the April Monetary Policy Report. Six weeks after publication, it's clear that current conditions don't support that sort of monetary tightening and the Bank of Canada will firmly hold its policy rate steady at 2.25% next week.

From our vantage point, the market is still mispriced. With measures of underlying inflation remaining tame and the economy struggling to avoid recession, there's little scope for central bankers to raise rates over the next few months. All signs point to a classic demand shortfall in the economy—albeit with some moving parts on the supply side too. As a result, the Bank of Canada's Governing Council no longer needs to be preoccupied with the policy trade-offs associated with a high-inflation, low-growth economy. The group can instead focus on what may be needed should demand deteriorate further.

Aside from the fundamental weakness in the economy, the risk of a messy CUSMA negotiation is underappreciated. A negative CUSMA outcome is the single greatest risk to the Canadian economy. It's very likely that the US, Canada and Mexico won't agree to a 16-year extension of the deal by the July 1 deadline. That doesn't necessarily spell disaster, given that CUSMA would still be in force, but it does point to a prolonged period of uncertainty during which President Trump could inject volatility.

With that in mind, the Bank of Canada will need to strike a more balanced tone in its communiqué. Doing so will include acknowledging the weakness in the economy as well as highlighting the limited pass-through from higher oil prices to other goods and services prices.

Central bankers should refrain from reiterating that "there may be a need for consecutive increases in the policy rate." In April, the Governing Council was at pains to explain that the illustrative high oil price scenario was not a full-blown alternative scenario with all of the associated modelling. Instead, it was more like a thought experiment meant to sketch out a unique situation. That nuance was evidently lost on markets, which swiftly priced in tighter monetary policy and turned an act of transparency into another communications misstep. Traders should beware that the Bank of Canada has a history of misguiding markets.

But we don't expect central bankers will need to cut rates either. Our baseline forecast still includes a boost from fiscal policy, a fading headwind from tariff uncertainty and a return to positive population growth towards the end of this year. All else being equal, the economy is expected to recover from its current malaise without any monetary support. However, should the CUSMA negotiations fall apart, Canadian central bankers will need to respond with lower rates, and all this talk about consecutive rate hikes will look even more ill-founded.

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What to Watch For

UNITED STATES

TUESDAY June 9 - 10:00

May	ann. rate
Consensus	4,060,000
Desjardins	4,085,000
April	**4,020,000**

Existing home sales (May) – Home resales continue to fluctuate. After plunging 2.9% in March, existing home sales edged up 0.2% in April, and we expect them to have increased again in May. If confirmed, this would mark the first back-to-back monthly increase since last fall. The uptick in pending home sales recorded in April points to further improvement in May. Mortgage applications for home purchases also increased in May relative to March and April. Preliminary regional data for May are not yet available, but releases in the coming days should allow us to fine-tune our projections. At this stage, we expect existing home sales to reach an annualized pace of 4,085,000 units.

WEDNESDAY June 10 - 8:30

May	m/m
Consensus	0.5%
Desjardins	0.5%
April	**0.6%**

Consumer price index (May) – The consumer price index (CPI) continues to trend higher. After rising 0.9% in March, largely on the back of higher energy prices, the index increased a further 0.6% in April for the same reason. With gasoline prices continuing to climb in May—up 10.0% at the pump—we expect energy to have driven another increase in the CPI, potentially by 0.3 percentage points. Food prices likely rose again, albeit at a slower pace than April's 0.5% increase. Core CPI, which excludes food and energy, likely moderated relative to April's 0.4% gain. The housing component appears to have decelerated following a strong 0.6% rise in April, and there are signs of softer price growth for used cars and trucks. Overall, total CPI is expected to have advanced 0.5% month over month, while core CPI likely rose 0.2%. This would bring year-over-year headline inflation from 3.8% to 4.2%, with core inflation holding at 2.8%.

FRIDAY June 12 - 8:30

June	
Consensus	46.0
Desjardins	46.0
May	**44.8**

University of Michigan consumer sentiment index (June – preliminary) – The University of Michigan consumer sentiment index fell to a new record low in May. Moreover, the final reading for the month came in well below the preliminary estimate, which doesn't bode well for the June print. That said, there are some positive factors to note. While the ongoing conflict with Iran is weighing on Trump's standing in political opinion polls, gasoline prices have eased over the past two weeks. Equity markets have rallied since mid-May, and labour market conditions remain relatively resilient despite last week's uptick in unemployment claims. On balance, we expect the University of Michigan index to post a very modest increase.

CANADA

TUESDAY June 9 - 8:30

April	$B
Consensus	2.30
Desjardins	2.75
March	**1.78**

International trade (April) – Canada's trade surplus likely expanded in April. We anticipate that Canadian exports rose faster than imports that month, as it looks like higher crude prices supported crude oil exports. In addition, motor vehicle production likely increased in April, providing another potential tailwind for exports. Imports of goods such as consumer products and industrial supplies are also expected to have picked up, which probably boosted total imports.

WEDNESDAY June 10 - 9:45	
June	
Consensus	2.25%
Desjardins	2.25%
April 29	**2.25%**

Bank of Canada decision (June) – Canadian central bankers are likely to stay the course and leave the policy rate unchanged at 2.25% next week. While headline inflation has risen, underlying measures of price pressures continue to suggest limited pass-through from higher energy prices to other goods and services. At the same time, the latest GDP data point to an economy that is struggling. With both inflation and economic activity under pressure, the trade-off that central bankers faced at the onset of the Iran conflict has eased, giving policymakers more scope to focus on downside risks to growth. With CUSMA negotiations set to inject additional volatility into markets, the cloud of uncertainty hanging over the Canadian economy is unlikely to clear in the near term. As a result, any forward guidance from policymakers will probably remain vague next week. This is especially true following the communication misstep in April, when the reference to possible consecutive rate increases triggered a sharp rise in bond yields.

OVERSEAS

THURSDAY June 11 - 8:15	
June	
Consensus	2.25%
Desjardins	2.25%
April 30	**2.00%**

Eurozone: European Central Bank meeting (June) – We expect the European Central Bank to hike rates by 25bps next week to mitigate the risk of de-anchoring inflation expectations. The data-dependent, meeting-by-meeting approach should continue to feature in the statement. Updated projections will likely show higher headline and core inflation, along with slower growth.

FRIDAY June 12 - 2:00	
April	**m/m**
Consensus	-0.1%
March	**0.3%**

United Kingdom: Monthly GDP (April) – In the first quarter of 2026, the UK recorded the strongest real GDP growth among G7 countries, driven largely by a notable pickup in consumer spending. This also reflected solid monthly growth in real GDP in February and March. The April GDP print should help clarify the trajectory for the second quarter. We expect growth to moderate as the UK grapples with the fallout from the war in Iran and higher energy prices. Retail sales already declined sharply in April. In contrast, the PMIs rebounded in April before retreating again in May.

FRIDAY June 12 - 21:30	
May	**y/y**
Consensus	1.3%
April	**1.2%**

China: Consumer price index (May) – Despite ongoing weakness in food prices, inflation in China edged up, rising from 1.0% in March to 1.2% in April, supported by higher energy and service prices. Meanwhile, food prices declined 1.6%—largely due to a sharp drop in pork prices—which could weigh on the CPI again in May. However, energy-related price pressures have intensified alongside an increase in producer prices. The pass-through to consumer prices is expected to remain partial, as domestic demand remains weak and some energy prices are regulated.

Economic Indicators

Week of June 8 to 12, 2026

UNITED STATES

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 8	---	---				
TUESDAY 9	8:30	Trade balance – Goods and services (US$B)	April	-55.8	-45.0	-60.3
	10:00	Wholesale inventories – final (m/m)	April	0.5%	0.5%	0.5%
	10:00	Existing home sales (ann. rate)	May	4,060,000	4,085,000	4,020,000
WEDNESDAY 10	8:30	Consumer price index				
		Total (m/m)	May	0.5%	0.5%	0.6%
		Excluding food and energy (m/m)	May	0.3%	0.2%	0.4%
		Total (y/y)	May	4.2%	4.2%	3.8%
		Excluding food and energy (y/y)	May	2.9%	2.8%	2.8%
	14:00	Federal budget (US$B)	May	n/a	n/a	215.0
THURSDAY 11	8:30	Initial unemployment claims	June	215,000	217,000	225,000
	8:30	Producer price index				
		Total (m/m)	May	0.7%	1.0%	1.4%
		Excluding food and energy (m/m)	May	0.5%	0.6%	1.0%
FRIDAY 12	10:00	University of Michigan consumer sentiment index – prel.	June	46.0	46.0	44.8

CANADA

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 8	---	---				
TUESDAY 9	8:30	International trade ($B)	April	2.30	2.75	1.78
WEDNESDAY 10	9:45	Bank of Canada decision	June	2.25%	2.25%	2.25%
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 11	8:30	Building permits (m/m)	April	n/a	-4.2%	10.3%
FRIDAY 12	---	---				

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of June 8 to 12, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	May	92.60		84.82	
SUNDAY 7							
Japan	19:50	Current account (¥B)	April	3,223.3		3,900.6	
Japan	19:50	Real GDP – final	Q1	0.3%		0.5%	
MONDAY 8							
Germany	2:00	Factory orders	April	-2.0%	4.8%	5.0%	6.3%
TUESDAY 9							
Germany	2:00	Trade balance (€B)	April	14.3		14.3	
Germany	2:00	Industrial production	April	0.4%	-1.1%	-0.7%	-2.8%
Japan	19:50	Producer price index	May	0.7%	5.6%	2.3%	4.9%
WEDNESDAY 10							
Italy	4:00	Industrial production	April	0.1%	0.5%	0.7%	1.5%
THURSDAY 11							
Germany	---	Current account (€B)	April	n/a		23.6	
Eurozone	8:15	European Central Bank meeting	June	2.25%		2.00%	
FRIDAY 12							
Japan	0:30	Industrial production – final	April	n/a	n/a	0.8%	2.3%
United Kingdom	2:00	Trade balance (£M)	April	-5,700		-9,658	
United Kingdom	2:00	Construction	April	-0.7%	-1.7%	1.5%	-0.3%
United Kingdom	2:00	Index of services	April	-0.1%		0.3%	
United Kingdom	2:00	Monthly GDP	April	-0.1%		0.3%	
United Kingdom	2:00	Industrial production	April	0.1%	-0.1%	-0.2%	0.0%
Germany	2:00	Consumer price index – final	May	-0.2%	2.6%	-0.2%	2.6%
France	2:45	Consumer price index – final	May	0.1%	2.4%	0.1%	2.4%
China	21:30	Consumer price index	May		1.3%		1.2%
China	21:30	Producer price index	May		3.8%		2.8%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).