

ESSENTIALS OF THE MONETARY POLICY

Bank of Canada (BoC)

The BoC Cuts Back on Some Market Operations

The New Governor Takes Up His Office

ACCORDING TO THE BOC

- ▶ The target for the overnight rate remains at 0.25%.
- ▶ Incoming data confirm the severe impact of the COVID-19 pandemic on the global economy. This impact appears to have peaked, although uncertainty about how the recovery will unfold remains high.
- ▶ In Canada, the pandemic has led to historic losses in output and jobs. Still, the Canadian economy appears to have avoided the most severe scenario presented in the BoC's April *Monetary Policy Report* (MPR). The level of real GDP in the first quarter was 2.1% lower than in the fourth quarter of 2019. This GDP reading is in the middle of the BoC's April monitoring range and reflects the combined impact of falling oil prices and widespread shutdowns.
- ▶ Inflation as measured by the consumer price index (CPI) dropped to near zero, as anticipated in the April MPR, mainly due to lower prices for gasoline. The BoC expects temporary factors to keep CPI inflation below the target band in the near term.
- ▶ The BoC's programs to improve market function are having their intended effect. After significant strains in March, short-term funding conditions have improved. Therefore, the Bank is reducing the frequency of its term repo operations to once per week, and its program to purchase bankers' acceptances to bi-weekly operations [...] Meanwhile, its other programs to purchase federal, provincial, and corporate debt are continuing at their present frequency and scope.

COMMENTS

As expected, the key interest rate remained at its effective lower bound. While it's clear that the economic conditions have deteriorated significantly in recent months, they did avoid the worst-case scenarios anticipated in the BoC's most recent MPR. Even if the results for the second quarter will be more negative than those for the first quarter, the gradual lifting of the lockdown more or less throughout the country is reason for optimism. With this in mind, the BoC announced today that it would be cutting back on the frequency of some of its operations. That said, uncertainty remains high, and the pace at which the Canadian economy will recover will depend hugely on how the pandemic evolves.

Also worth noting is that Tiff Macklem's seven-year tenure at the helm of the BoC begins today. Some may recall that Tiff Macklem was the BoC's senior deputy governor from July 2010 to May 2014. He also spent a large part of his career at the BoC in a variety of roles with ever greater responsibilities. Under the circumstances, don't expect any major upsets in terms of monetary policy under his watch.

IMPLICATIONS

Even if the monetary authorities announced some minor changes to their operations program today, there is no need to fear that the BoC will quickly pull out of the markets. It will take several quarters before the economic recovery is well underway, and the BoC has reiterated its commitment to continue its purchases during the transition period.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Schedule 2020 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
16	Bank of Korea	s.q.	1.25
20	Bank of Japan	s.q.	-0.10
22	Bank of Canada*	s.q.	1.75
23	European Central Bank	s.q.	0.00
23	Bank of Norway	s.q.	1.50
29	Federal Reserve	s.q.	1.75
30	Bank of England	s.q.	0.75
February			
3	Reserve Bank of Australia	s.q.	0.75
5	Bank of Brazil	-25 b.p.	4.25
11	Reserve Bank of New Zealand	s.q.	1.00
12	Bank of Sweden	s.q.	0.00
13	Bank of Mexico	-25 b.p.	7.00
26	Bank of Korea	s.q.	1.25
March			
2	Reserve Bank of Australia	-25 b.p.	0.50
3	Federal Reserve	-50 b.p.	1.25
4	Bank of Canada	-50 b.p.	1.25
11	Bank of England	-50 b.p.	0.25
12	European Central Bank	s.q.	0.00
13	Bank of Norway	-50 b.p.	1.00
13	Bank of Canada	-50 b.p.	0.75
15	Reserve Bank of New Zealand	-75 b.p.	0.25
15	Federal Reserve	-100 b.p.	0.25
16	Bank of Korea	-50 b.p.	0.75
16	Bank of Japan	s.q.	-0.10
18	Reserve Bank of Australia	-25 b.p.	0.25
18	Bank of Brazil	-50 b.p.	3.75
19	Bank of England	-15 b.p.	0.10
19	Swiss National Bank	s.q.	-0.75
20	Bank of Norway	-75 b.p.	0.25
20	Bank of Mexico	-50 b.p.	6.50
26	Bank of England	s.q.	0.10
27	Bank of Canada	-50 b.p.	0.25
April			
7	Reserve Bank of Australia	s.q.	0.25
8	Bank of Korea	s.q.	0.75
15	Bank of Canada*	s.q.	0.25
21	Bank of Mexico	-50 b.p.	6.00
28	Bank of Sweden	s.q.	0.00
28	Bank of Japan	s.q.	-0.10
29	Federal Reserve	s.q.	0.25
30	European Central Bank	s.q.	0.00
May			
5	Reserve Bank of Australia	s.q.	0.25
6	Bank of Brazil	-75 b.p.	3.00
7	Bank of England	s.q.	0.10
7	Bank of Norway	-25 b.p.	0.00
12	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Mexico	-50 b.p.	5.50
27	Bank of Korea	-25 b.p.	0.50
June			
2	Reserve Bank of Australia	s.q.	0.25
3	Bank of Canada	s.q.	0.25
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

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