



Economic Flash!

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Odds Tilting on BoC Cut... Slightly

Being the Bank of Canada Governor is a tough job, but sometimes forecasting what a BoC Governor will do is even tougher. Unlike the Fed, we don't have the luxury of individual voting members who use speeches to lay out their thinking ahead of BoC decisions, as the Governor has the one and only "vote" in this case.

With that caveat, we see the odds having tilted in recent days, and are now ever so slightly on the side of seeing a rate cut in January, or April at the latest. That's not based on a recommendation to do so. At this point, we're concerned about risks of a runaway C\$, believe the currency to be weak enough to do the job on the trade side, and see little if any benefit in terms of generating more debt financed private sector activity.

We would argue that a larger fiscal stimulus package that has the federal government do the additional borrowing/spending would be preferable for longer term financial stability. A \$30 bn federal deficit, for example, would still be moderate at 1.5% of GDP, but would add an additional half point of GDP to growth vs. the election platform.

But with many forecasters giving Poloz the green light to cut (by forecasting one is coming), and the market pricing in more than one cut over the next half year (if not yet a full cut for January), the Bank may feel that a cut now would not be a shocking surprise to the C\$ or other markets.

The BoC's latest Outlook survey and other data left the impression that what now looks like zero growth for Q4 could be followed by very modest growth in Q1. In Poloz's last speech, he concluded that the Bank would "use our tools" to manage economic risks, echoing Deputy Governor Tim Lane's speech ahead of last January's surprise cut, in which he ended with a reminder that "we have the tools to respond."

It's still a close call, one we would not day trade on, but even if the Bank doesn't actually cut, they will certainly use language to convey a much higher likelihood of a rate cut ahead.

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