GUARDIAN CAPITAL

Quick thoughts on Bank of Canada's decision -- policy rates unchanged, tone of statement a little more upbeat than last go suggesting high bar for a cut

As was nearly universally expected, the Bank of Canada left its overnight policy interest unchanged at 1.75% in this morning's decision.

What was less expected was the somewhat more upbeat (less dovish) tone struck by Bank's Governing Council in the statement accompanying the decision (to read the full statement, click here), which will go some way to dampen expectations that a rate cut is imminent.

Against this, the Canadian dollar firmed immediately upon release (CAD now firmer by 0.5% on the day) while yields have moved higher across the Canadian curve (yields have added another 3½bps across the curve on the release to bring 2-year yields up now 7bps on the day and 10-year yields +8bps; the "risk on" sentiment re: the trade outlook today had pushed yields higher in tandem with global rates earlier this morning).

In the statement, the monetary policymakers noted that while trade uncertainties "remain the biggest source of risk to the outlook", they noted that "global economic growth appears to be intact" and that market concerns over recessions are "waning" against central bank actions globally and some positive news on the trade front. This environment has resulted in commodity prices and the Canadian remaining "relatively stable", which suggest less concern over the currency's strength than in October where it was explicitly commented that the "the Canadian dollar has strengthened against other currencies" despite falling commodity prices and concerns about global demand.

From a domestic standpoint, the Bank commented on the surprising strength in capex (which was flagged in the Q3 GDP data) and that "stronger" wage growth was underpinning consumer spending. As well, there was a somewhat notable shift in comments on the slack in the Canadian economy — the statement noted that at target inflation was "consistent with an economy operating near capacity"; the last statement noted that there was a "modest output gap".

Overall, the Bank judged that the current level of rates "remains appropriate" and that decisions going forward will be based on the "continuing assessment of the adverse impact of trade conflicts against the sources of resilience in the Canadian economy", specifically consumer spending and housing.

The bottom line in my view is that this statement marks a distinct turn from the last iteration back in October which had struck notably downbeat/dovish chord. The economy continues to chug along and inflation remains on target with anchored expectations and as such, it would appear that the bar for a rate cut is higher than assumed back in October —

I continue to believe that absent an exogenous shock, the Bank of Canada will be content to sit on the sidelines for the foreseeable future.

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